

HARDIN COUNTY WATER DISTRICT NO. 2

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2022 AND 2021

HARDIN COUNTY WATER DISTRICT NO. 2

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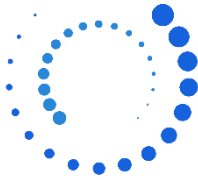
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INDEPENDENT AUDITOR'S REPORT



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Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hardin County Water District No. 2
Elizabethtown, Kentucky

Opinion

We have audited the accompanying financial statements of Hardin County Water District No. 2 as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hardin County Water District No. 2, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (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 Hardin County Water District No. 2, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 these 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 Hardin County Water District No. 2'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 GAAS 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 GAAS 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 Hardin County Water District No. 2'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 Hardin County Water District No. 2'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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2022, the District adopted Governmental Accounting Standards Board Statement 87, *Leases*, Statement 91, *Conduit Debt Obligations*, Statement 92, *Omnibus 2020*, Statement 97, *Certain Component Unit Criteria*, and *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84*, and a supersession of *GASB Statement No. 32*, Statement 98, *The Annual Comprehensive Financial Report* and Statement 99, *Omnibus 2022*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hardin County Water District No. 2's basic financial statements. Schedules I, II, IV, V, VI, VII, VIII and IX are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures,

including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules I, II, IV, V, VI, VII, VIII and IX are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises Schedule III but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 8, schedule of proportionate share of the net pension and OPEB liabilities on pages 36 and 37 and schedule of contributions on pages 38 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 March 29, 2023, on our consideration of Hardin County Water District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Hardin County Water District No. 2's internal control over financial reporting and compliance.



Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
March 29, 2023

REQUIRED SUPPLEMENTARY INFORMATION

**HARDIN COUNTY WATER DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2022**

The discussion and analysis of Hardin County Water District No. 2's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2022. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the District was \$26.1 million. The balance at December 31, 2021, was \$36.3 million. This reflects a decrease in cash and investments during the year of \$10.2 million.
- The District continued capital construction projects to improve the water system, ensure the future water supply and relocate to a new facility.
- The District invested approximately \$3.6 million in capital assets during the year.

USING THIS ANNUAL REPORT

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; and notes to the basic financial statements.

The **statements of net position** present the financial position of the District on a full accrual historical cost basis. The statement presents information on all of the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year end, the **statements of revenues, expenses, and changes in fund net position** present the results of the District's activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The **statements of cash flows** present changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the basic 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.

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$101.2 million and \$102.9 million as of December 31, 2022 and 2021.

The largest portion of the District's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, equipment, transmission and distribution systems and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Position
as of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current and		
Other Assets	\$ 43,635,260	\$ 52,461,706
Capital Assets	<u>88,835,630</u>	<u>88,770,613</u>
Total Assets	<u>132,470,890</u>	<u>141,232,319</u>
Deferred Outflows of Resources	3,244,241	2,944,646
Liabilities		
Long-term liabilities	28,205,264	34,771,877
Other Liabilities	<u>3,031,176</u>	<u>3,150,374</u>
Total Liabilities	<u>31,236,440</u>	<u>37,922,251</u>
Deferred Inflows of Resources	3,232,592	3,308,180
Net Position		
Net investment in capital assets	73,176,802	65,573,646
Restricted	10,134,277	9,232,939
Unrestricted	<u>17,935,020</u>	<u>28,139,949</u>
Total Net Position	<u>\$ 101,246,099</u>	<u>\$ 102,946,534</u>

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), decreased \$10.2 million (36.3%) at December 31, 2022. Restricted net position increased \$.9 million (9.8%). Net investment in capital assets increased by \$7.6 million (11.6%).

(Table 2)
Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES:		
Water sales	\$ 14,685,398	\$ 13,896,381
Sewer sales	212,813	210,885
Other operating income	790,890	894,165
Total operating revenues	15,689,101	15,001,431
OPERATING EXPENSES:		
Power purchased	992,768	879,081
Purchased water	981,789	1,146,024
Pumping and treatment labor	1,842,679	1,702,455
Purification supplies and expense	678,241	392,348
Transmission and distribution labor	2,819,865	2,700,897
Transmission and distribution supplies and expense	487,843	433,303
Transmission and distribution maintenance and repairs	97,843	70,737
Equipment rental	20,003	9,794
Transportation expense	294,402	192,479
Water treatment maintenance and expense	306,702	228,601
General and administrative expenses	3,356,726	3,154,961
Depreciation	3,505,363	3,302,683
Total operating expenses	15,384,224	14,213,363
OPERATING INCOME	304,877	788,068
NON-OPERATING REVENUES (EXPENSES):		
Investment income	(2,324,645)	250,014
Other income	300,605	280,091
Gain on disposal of capital assets	15,000	989,085
Bond issuance costs	(65,450)	-
Interest expense on long-term debt	(573,162)	(609,902)
Amortization of bond discount and utility acquisition	(5,440)	(10,404)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,653,092)	898,884
Capital contributions	655,105	762,540
Change in net position	(1,693,110)	2,449,492
Net position, beginning	102,946,534	100,497,042
Net position, ending	\$ 101,253,424	\$ 102,946,534

Operating revenue increased 4.6% as compared to the prior year. Total operating expenses increased 8.3%, which was due to increased labor and benefit costs and more depreciation. The District continues to receive capital contributions through the State of Kentucky, the Federal government, other governments and individual developers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2022 and 2021, the District had \$88.8 million and \$88.8 million invested in a variety of capital assets, as reflected in the following table:

(Table 3)
Capital Assets (Net of Depreciation)
as of December 31, 2022 and 2021

	2022	2021
Non-Depreciable Assets:		
Land and land rights	\$ 2,038,253	\$ 2,038,253
Depreciable Assets:		
Structures and improvements	17,427,426	10,450,118
Supply mains	11,709,486	11,972,180
Treatment plant	9,844,487	9,667,804
Standpipes, tanks and foundations	7,005,900	7,148,383
Transmission and distribution mains	31,794,358	32,747,523
Services and meters	5,479,642	5,473,673
Hydrants	85,506	46,363
Office furniture and fixtures	691,405	418,184
Transportation equipment	689,895	810,204
Other property and equipment	500,632	316,206
	87,266,990	81,088,891
Capital assets in service		
Construction in progress	1,568,640	7,681,722
Total capital assets, net of depreciation	\$ 88,835,630	\$ 88,770,613

Changes in capital assets for the years ended December 31, 2022 and 2021 are in the following table:

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2022 and 2021

	2022	2021
Beginning balance	\$ 88,770,613	\$ 87,784,189
Additions	12,282,889	10,374,125
Retirements	(8,712,509)	(6,085,018)
Depreciation	(3,505,363)	(3,302,683)
Ending balance	\$ 88,835,630	\$ 88,770,613

Debt

At December 31, 2022 and 2021, the District had \$11.5 million and \$13.2 million, in revenue bonds outstanding and \$4.0 million and \$9.6 million of notes payable. A total of \$1.3 million is due within the 2023 calendar year.

(Table 5)
Outstanding Debt
as of December 31, 2022 and 2021

	2022	2021
Revenue bonds	\$ 11,546,400	\$ 13,180,500
Notes payable	4,042,895	9,587,934
Unamortized discount/premium	44,727	66,194
	\$ 15,634,022	\$ 22,834,628

District Challenges for the Future

The District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent.

The District will continue to use careful planning and monitoring of finances to provide quality services to its customers.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Shaun Youravich, General Manager, 1951 West Park Road, Elizabethtown, Kentucky 42701, (270) 737-1056.

BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF NET POSITION

DECEMBER 31, 2022 AND 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,889,791	\$ 5,617,771
Investments	9,106,314	21,494,368
Accounts receivable, net	1,916,716	1,781,001
Prepaid expenses	173,327	243,234
Stop loss receivable	79,283	13,296
State grants receivable	-	14,380
Materials and supplies	1,606,772	604,062
TOTAL CURRENT ASSETS	19,772,203	29,768,112
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	8,926,886	8,025,545
Restricted investments	1,207,394	1,207,394
Regulatory asset on CERS pension	10,672,851	10,621,162
Regulatory asset on CERS OPEB	3,055,926	2,839,493
Non-depreciable capital assets	3,606,893	9,719,975
Depreciable capital assets, net of accumulated depreciation	85,228,737	79,050,638
TOTAL NONCURRENT ASSETS	112,698,687	111,464,207
TOTAL ASSETS	132,470,890	141,232,319
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refundings	72,440	89,617
Deferred amount on CERS pension	1,600,181	1,086,695
Deferred amount on CERS OPEB	1,454,855	1,641,839
Utility acquisition adjustments	116,765	126,495
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,244,241	2,944,646
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	262,486	226,693
Construction projects payable	97,246	451,956
Unearned revenue	98,304	108,471
Interest payable	-	11,457
Elizabethtown sewer payable	649,332	539,315
Accrued taxes	54,342	54,669
Accrued liabilities	155,387	158,169
Accrued vacation	206,021	176,873
Customer deposits	36,638	39,671
Customer advances for construction	71,000	61,000
Bonds payable	1,020,700	1,019,500
Notes payable	289,022	281,301
Self-insurance payable	90,698	21,299
TOTAL CURRENT LIABILITIES	3,031,176	3,150,374
NONCURRENT LIABILITIES:		
Customer deposits	329,743	357,041
Net pension liability - CERS	10,645,518	9,906,949
Net OPEB liability - CERS	2,905,703	2,974,060
Bonds payable	10,570,427	12,227,194
Notes payable	3,753,873	4,042,895
Bond anticipation note payable	-	5,263,738
TOTAL NONCURRENT LIABILITIES	28,205,264	34,771,877
TOTAL LIABILITIES	31,236,440	37,922,251
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on CERS pension	1,627,514	1,800,908
Deferred amount on CERS OPEB	1,605,078	1,507,272
TOTAL DEFERRED INFLOWS OF RESOURCES	3,232,592	3,308,180
<u>NET POSITION</u>		
Net investment in capital assets	73,176,802	65,573,646
Restricted for debt service	2,498,168	2,463,650
Restricted for capital projects	7,246,897	6,332,744
Restricted for customers	389,212	436,545
Unrestricted	17,935,020	28,139,949
TOTAL NET POSITION	\$ 101,246,099	\$ 102,946,534

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

HARDIN COUNTY WATER DISTRICT NO. 2STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITIONYEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES:		
Water sales	\$ 14,685,398	\$ 13,896,381
Sewer sales	212,813	210,885
Other operating income	790,890	894,165
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	15,689,101	15,001,431
OPERATING EXPENSES:		
Power purchased	992,768	879,081
Purchased water	981,789	1,146,024
Pumping and treatment labor	1,842,679	1,702,455
Purification supplies and expense	678,241	392,348
Transmission and distribution labor	2,819,865	2,700,897
Transmission and distribution supplies and expense	487,843	433,303
Transmission and distribution maintenance and repairs	97,843	70,737
Equipment rental	20,003	9,794
Transportation expense	294,402	192,479
Water treatment maintenance and expense	306,702	228,601
General and administrative expenses	3,356,726	3,154,961
Depreciation	3,505,363	3,302,683
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TOTAL OPERATING EXPENSES	15,384,224	14,213,363
OPERATING INCOME	304,877	788,068
NON-OPERATING REVENUES (EXPENSES):		
Investment income	(2,324,645)	250,014
Other income	300,605	280,091
Gain on disposal of capital assets	15,000	7,750
Bond issuance costs	(65,450)	-
Interest expense on long-term debt	(573,162)	(609,902)
Amortization of bond items and utility acquisition	(5,440)	(10,404)
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,653,092)	(82,451)
SPECIAL ITEM - SEE NOTE 14	-	981,335
CAPITAL CONTRIBUTIONS	655,105	762,540
	<hr/>	<hr/>
CHANGE IN NET POSITION	(1,693,110)	2,449,492
NET POSITION, beginning of year	102,946,534	100,497,042
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NET POSITION, end of year	<u>\$ 101,253,424</u>	<u>\$ 102,946,534</u>

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

HARDIN COUNTY WATER DISTRICT NO. 2

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 15,553,386	\$ 15,218,135
Payments to suppliers	(7,255,404)	(6,945,552)
Payments to employees	(4,416,330)	(4,137,774)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,881,652	4,134,809
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(3,905,000)	(988,000)
Proceeds from bonds	2,244,950	-
Principal payments on notes	(7,253,253)	(273,785)
Borrowing on bond anticipation note	1,708,214	5,263,738
Acquisition of capital assets	(4,927,800)	(7,429,439)
Contributions in aid of construction	659,485	761,355
Interest on long-term debt	(520,187)	(598,445)
Sale of capital assets	15,000	4,514,392
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(11,978,591)	1,249,816
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(12,201,471)	(8,409,548)
Proceeds from investments	21,955,164	665
Other income	220,904	309,387
Investment income	295,703	445,129
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	10,270,300	(7,654,367)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	2,173,361	(2,269,742)
CASH AND CASH EQUIVALENTS, beginning of year	13,643,316	15,913,058
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 15,816,677</u>	<u>\$ 13,643,316</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 297,552	\$ 788,068
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,505,363	3,302,683
Bad debt expense	74,475	57,321
(Increase) decrease in accounts receivable	(135,715)	168,581
(Increase) in prepaid expenses	(60,773)	(121,255)
Increase (decrease) in accounts payable	35,793	(45,933)
(Decrease) in unearned revenue	(10,167)	(100,553)
Increase in Elizabethtown sewer payable	110,017	210,923
(Decrease) in customer deposits	(30,331)	(53,342)
Increase (decrease) in accrued taxes payable	(327)	592
(Decrease) in accrued liabilities	(2,782)	(60,762)
Increase (decrease) in accrued vacation	29,148	(8,401)
Increase (decrease) in self-insurance payable	69,399	(3,113)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,881,652</u>	<u>\$ 4,134,809</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Hardin County Water District No. 2 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Hardin County, Kentucky. During the year ended December 31, 2017, the District established a sewer division. The District began supplying sewer service in 2020.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred. Because the District's rates are regulated by the Kentucky Public Service Commission the District accounts for the financial effects of regulation in accordance with

(Continued next page)

HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

Governmental Accounting Standards Board (GASB) Statement No. 62, Paragraphs 476-500, Regulated Operations. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

D. FINANCIAL STATEMENT AMOUNTS

1. Cash and investments – The District’s cash balances are held at multiple financial institutions. Investments are stated at fair value based on quoted market prices.
2. Cash and cash equivalents – The District has defined cash and cash equivalents to include cash on hand and demand deposits. The District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit. The cost basis approximates market value.
4. Materials and supplies – Materials and supplies is composed of items used in the capital construction process.
5. Accounts Receivable – The allowance method is used to record uncollectible accounts. At December 31, 2022 and 2021, accounts receivable was stated net of an allowance for uncollectible accounts of \$85,000 and \$100,000. Bad debt expense for 2022 was \$74,475 and 2021 was \$57,321. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
6. Capital Assets – Capital assets in service and construction in progress with an original cost of \$5,000 or more are recorded at historical cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers’ estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters	10-20

7. Compensated absences – The District accrues unpaid vacation when earned by the employee.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

8. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenue and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.
9. Net Position – Net position is divided into three components:
 - a. Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
 - b. Restricted net position – consist of net position that is restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
 - c. Unrestricted – all other net position is reported in this category.
10. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.
11. Amortization – Bond discounts/premiums and deferred amounts on refundings are being amortized using the interest method over the life of each respective bond issue.
12. Capital Contributions – Contributions are recognized in the Statement of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
13. Long-term Obligations – Long-term obligations are reported at face value, net of applicable premiums and discounts.
14. Use of Estimates – Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
15. Pensions and OPEB – For purposes of measuring the net pension liability, net OPEB liability, deferred outflows/inflows of resources, and pension and OPEB expense, information about the fiduciary net position of the 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 except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB. Accordingly, the District recognizes the actuarially determined contribution as the current year pension and OPEB expense.

16. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In June 2017, the GASB issued Statement 87, *Leases*. This adoption did not have an effect on the financial statements.

In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. This adoption did not have an effect on the financial statements.

In January 2020, the GASB Issued Statement 92, *Omnibus 2020*. This adoption did not have an effect on the financial statements.

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. This adoption did not have an effect on the financial statements.

In October 2021, the GASB issued Statement 98, *The Annual Comprehensive Financial Report*. This adoption did not have an effect on the financial statements.

In October 2021, the GASB issued Statement 99, *Omnibus 2022*. This statement is effective for periods beginning after December 15, 2021. This adoption did not have an effect on the financial statements.

Recently Issued Accounting Pronouncements

In March 2020, the GASB issued Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This statement is effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2020, the GASB issued Statement 96, *Subscription-Based Information Technology Arrangements*. This statement is effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

In June 2022, the GASB issued Statement 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. This statement is effective for periods beginning after June 15, 2023. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2022, the GASB issued Statement 101, *Compensated Absences*. This statement is effective for periods beginning after December 15, 2023. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE 2 – ELIZABETHTOWN WATER SYSTEM ACQUISITION

On October 23, 2014, the Kentucky Public Service Commission approved an asset purchase agreement between the District and the City of Elizabethtown, Kentucky, for the District's purchase of certain water system assets of the City. The transaction closed on October 31, 2014. The agreement requires the District to pay a note to the City of \$8,000,000 in twenty annual installments of \$400,000 beginning in 2015. The note carries no specified interest rate, but interest was imputed at a rate of 2.745 percent resulting in a net principal amount of \$6,093,748 and a resulting interest amount of \$1,906,252 over the life of the note (See note 5). The assets acquired were recorded at cost as well as the corresponding accumulated depreciation (See note 4). The transaction resulted in a \$1,000,000 capital contribution from the City and a utility acquisition adjustment of \$194,608 which is presented as a deferred outflow of resources in the Statement of Net Position. This amount is being amortized over 20 years at \$9,730 per year. The unamortized amount at December 31, 2022 and 2021 was \$116,765 and \$126,495.

NOTE 3 – DEPOSITS AND INVESTMENTS

DEPOSITS – Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2022 and 2021, \$18,624,291 and \$14,456,756 of the District's bank balance of \$20,374,291 and \$14,953,756 was exposed to custodial credit risk. For 2022, of the amount exposed to custodial credit risk, \$14,662,941 was collateralized by securities held by the pledging financial institution and \$3,961,350 was uncollateralized. For 2021, of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021*INVESTMENTS*

At December 31, 2022 and 2021, the District had the following investments and maturities:

	<u>12/31/2022</u> <u>Fair Value</u>	<u>Average Credit</u> <u>Quality/Ratings</u>	<u>Maturities</u>
U.S. Treasury Notes	<u>\$ 5,810,273</u>	AAA	<1 Year
Total Investments	<u>\$ 5,810,273</u>		
	<u>12/31/2021</u> <u>Fair Value</u>	<u>Average Credit</u> <u>Quality/Ratings</u>	<u>Maturities</u>
Bond Mutual Funds	\$ 3,751,534	Unrated	4.0 years average
Bond Mutual Funds	12,522,185	Unrated	5.2 years average
Bond Mutual Funds	<u>5,220,649</u>	Unrated	6.1 years average
Total Investments	<u>\$ 21,494,368</u>		

The funds listed above are not rated. The individual investments within the funds are rated no lower than BBB.

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the District's investing activities are under the custody of the District Commissioners. Investing policies comply with the State Statutes. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

- Obligations of the United States and of its agencies and instrumentalities;
- Obligations of any corporation of the United States Government;
- Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency;
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4);
- Commercial paper rated in the highest category by a nationally recognized rating agency;

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and
- Shares of mutual funds, each of which shall have the following characteristics:
 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 2. The management company of the investment company shall have been in operation for at least five (5) years; and
 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. **Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the District's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The District does not have more than 5% or more of investments subject to the concentration of credit risk disclosure in any one issuer. **Custodial Credit Risk** is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. No investments are reported at amortized cost. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investments are level 1 inputs.

NOTE 4 - RESTRICTED CASH

The District has restricted cash for various purposes at December 31, 2022 and 2021 as follows:

<u>Restricted For</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Debt service	\$ 2,498,170	\$ 2,463,650
Depreciation fund	931,064	1,036,697
Escrow	75,741	65,433
Construction	6,240,093	5,230,614
Customer deposits	389,212	436,545
	<u>\$ 10,134,280</u>	<u>\$ 9,232,939</u>

For the years ended December 31, 2022 and 2021, the restricted cash includes \$1,207,394 and \$1,207,394 which represents a debt certificate of deposit which is reported in the Statements of Net Position as a restricted investment due to presentation differences between GASBS 3 and 9.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 follows:

	Balance at December 31, 2021	Additions	Retirements	Balance at December 31, 2022
Non-Depreciable Assets:				
Land and land rights	\$ 2,038,253	\$ -	\$ -	\$ 2,038,253
Construction in progress	7,681,722	2,599,427	(8,712,509)	1,568,640
Total Capital Assets Not Being Depreciated	9,719,975	2,599,427	(8,712,509)	3,606,893
Capital Assets Being Depreciated:				
Structures and improvements	17,475,915	7,733,111	-	25,209,026
Supply mains	13,860,201	29,708	-	13,889,909
Treatment plant	12,132,376	287,186	-	12,419,562
Standpipes, tanks and foundations	12,133,660	171,756	-	12,305,416
Transmission and distribution mains	53,315,175	142,817	-	53,457,992
Services and meters	11,326,831	596,222	(254,064)	11,668,989
Hydrants	324,432	47,704	-	372,136
Office furniture and fixtures	1,019,925	384,415	-	1,404,340
Transportation equipment	2,385,948	31,507	(24,845)	2,392,610
Other property and equipment	985,625	259,036	-	1,244,661
Total Capital Assets Being Depreciated at historical cost	124,960,088	9,683,462	(278,909)	134,364,641
Less accumulated depreciation:				
Structures and improvements	7,025,797	755,803	-	7,781,600
Supply mains	1,888,021	292,402	-	2,180,423
Treatment plant	2,464,572	110,503	-	2,575,075
Standpipes, tanks and foundations	4,985,277	314,239	-	5,299,516
Transmission and distribution mains	20,567,652	1,095,982	-	21,663,634
Services and meters	5,853,158	590,253	(254,064)	6,189,347
Hydrants	278,069	8,561	-	286,630
Office furniture and fixtures	601,741	111,194	-	712,935
Transportation equipment	1,575,744	151,816	(24,845)	1,702,715
Other property and equipment	669,419	74,610	-	744,029
Total accumulated depreciation	45,909,450	3,505,363	(278,909)	49,135,904
Total other capital assets, net	79,050,638	6,178,099	-	85,228,737
Capital assets, net	<u>\$ 88,770,613</u>	<u>\$ 8,777,526</u>	<u>\$ (8,712,509)</u>	<u>\$ 88,835,630</u>

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

Capital asset activity for the year ended December 31, 2021 follows:

	Balance at December 31, 2020	Additions	Retirements	Balance at December 31, 2021
Non-Depreciable Assets:				
Land and land rights	\$ 2,182,132	\$ 462,689	\$ (606,568)	\$ 2,038,253
Construction in progress	3,286,281	6,955,152	(2,559,711)	7,681,722
Total Capital Assets Not Being Depreciated	5,468,413	7,417,841	(3,166,279)	9,719,975
Capital Assets Being Depreciated:				
Structures and improvements	18,848,384	1,762,658	(3,135,127)	17,475,915
Property held for future use	1,190,404	243,574	(1,433,978)	-
Supply mains	13,860,201	-	-	13,860,201
Treatment plant	12,052,174	80,202	-	12,132,376
Standpipes, tanks and foundations	12,133,660	-	-	12,133,660
Transmission and distribution mains	53,142,985	172,190	-	53,315,175
Services and meters	11,113,516	475,278	(261,963)	11,326,831
Hydrants	302,183	22,249	-	324,432
Office furniture and fixtures	920,975	98,950	-	1,019,925
Transportation equipment	2,325,403	77,668	(17,123)	2,385,948
Other property and equipment	962,110	23,515	-	985,625
Total Capital Assets Being Depreciated at historical cost	126,851,995	2,956,284	(4,848,191)	124,960,088
Less accumulated depreciation:				
Structures and improvements	7,915,582	616,741	(1,506,526)	7,025,797
Property held for future use	136,400	7,440	(143,840)	-
Supply mains	1,604,918	283,103	-	1,888,021
Treatment plant	2,371,769	92,803	-	2,464,572
Standpipes, tanks and foundations	4,674,035	311,242	-	4,985,277
Transmission and distribution mains	19,471,224	1,096,428	-	20,567,652
Services and meters	5,517,195	597,926	(261,963)	5,853,158
Hydrants	271,253	6,816	-	278,069
Office furniture and fixtures	549,038	52,703	-	601,741
Transportation equipment	1,422,209	170,658	(17,123)	1,575,744
Other property and equipment	602,596	66,823	-	669,419
Total accumulated depreciation	44,536,219	3,302,683	(1,929,452)	45,909,450
Total other capital assets, net	82,315,776	(346,399)	(2,918,739)	79,050,638
Capital assets, net	\$ 87,784,189	\$ 7,071,442	\$ (6,085,018)	\$ 88,770,613

During the years ended December 31, 2022 and 2021, the District capitalized no interest in either year and expensed \$573,162 and \$609,902 of interest costs.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021NOTE 6 – LONG-TERM OBLIGATIONS

The construction costs of the District's water facilities have been financed by issuance of revenue bonds authorized under Kentucky Revised. All assets of the District are pledged as collateral for these bonds. Information relating to the outstanding bond issues is summarized below:

<u>Issue</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Bonds Due 12/31/2022</u>	<u>Bonds Due 12/31/2021</u>
2010 Series A	2.0% - 4.125%	\$ 5,625,000	\$ -	\$ 3,190,000
2012 Series	1.0% - 3.75%	6,070,000	4,080,000	4,295,000
2016 Series A	3.875%	3,400,000	3,286,000	3,325,500
2016 Series B	2.0% - 3.0%	2,180,000	945,000	1,165,000
2016 Series C	2.0% - 3.0%	2,430,000	925,000	1,205,000
2022 Series A	1.450%	2,310,400	2,310,400	-
			<u>\$ 11,546,400</u>	<u>\$ 13,180,500</u>

On January 15, 2021, the District issued into a revenue bond anticipation note to borrow up to \$8 million to be used for capital improvements. The note carries an interest rate of .575 percent. Draws on the loan during 2022 were \$1,708,214 and 2021 were \$5,263,738 for a total of \$6,971,952. Interest on the loan for 2022 was \$40,527 and for 2021 was \$14,182. The loan was paid off in December 2022.

On January 28, 2022, the District issued \$2,310,400 in Refunding Revenue Bonds with an interest rate of 1.45 percent to currently refund \$2,925,000 of outstanding 2010 Revenue Bonds. The net proceeds of \$2,244,950 (after \$65,450 in cost of issuance) and \$699,972 from the District were used to redeem the 2010 bonds in March 2022. The District completed the refunding to reduce its total debt service payments over the next 9 years by \$1,056,359 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$985,892.

Long-term liability activity for the year ended December 31, 2022, was as follows:

	<u>Balance at December 31, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2022</u>	<u>Amount Due Within One Year</u>
Bonds and notes payable:					
Revenue bonds	\$ 13,180,500	\$ 2,310,400	\$ (3,944,500)	\$ 11,546,400	\$ 1,020,700
Notes	9,587,934	1,708,214	(7,253,253)	4,042,895	289,022
Unamortized bond premium/discount	66,194	-	(21,467)	44,727	-
Total bonds and notes payable	22,834,628	4,018,614	(11,219,220)	15,634,022	1,309,722
Other liabilities:					
Customer deposits	396,712	151,800	(182,131)	366,381	36,638
Accrued vacation	176,873	206,021	(176,873)	206,021	206,021
Customer advances for construction	61,000	34,000	(24,000)	71,000	71,000
Total other liabilities	634,585	391,821	(383,004)	643,402	313,659
Long-term liabilities	<u>\$ 23,469,213</u>	<u>\$ 4,410,435</u>	<u>\$ (11,602,224)</u>	<u>\$ 16,277,424</u>	<u>\$ 1,623,381</u>

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

Long-term liability activity for the year ended December 31, 2021, was as follows:

	Balance at <u>December 31, 2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>December 31, 2021</u>	Amount Due Within <u>One Year</u>
Bonds and notes payable:					
Revenue bonds	\$ 14,168,500	\$ -	\$ (988,000)	\$ 13,180,500	\$ 1,019,500
Notes	4,597,981	5,263,738	(273,785)	9,587,934	281,301
Unamortized bond premium/discount	<u>85,758</u>	<u>-</u>	<u>(19,564)</u>	<u>66,194</u>	<u>-</u>
Total bonds and notes payable	18,852,239	5,263,738	(1,281,349)	22,834,628	1,300,801
Other liabilities:					
Customer deposits	450,054	167,365	(220,707)	396,712	39,671
Accrued vacation	185,274	176,873	(185,274)	176,873	176,873
Customer advances for construction	<u>50,000</u>	<u>46,000</u>	<u>(35,000)</u>	<u>61,000</u>	<u>61,000</u>
Total other liabilities	<u>685,328</u>	<u>390,238</u>	<u>(440,981)</u>	<u>634,585</u>	<u>277,544</u>
Long-term liabilities	<u>\$ 19,537,567</u>	<u>\$ 5,653,976</u>	<u>\$ (1,722,330)</u>	<u>\$ 23,469,213</u>	<u>\$ 1,578,345</u>

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented as follows:

Revenue Fund

All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

Bond and Interest Redemption Funds

There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2012 Series, 2016 Series A, 2016 Series B, 2016 Series C and 2022 Series A and 1/12 of the next ensuing principal and interest payment on the note payable.

Depreciation Fund

The District is required to transfer \$20,295 per month until the fund balance reaches \$272,400 (was fully funded at December 31, 2022 and 2021). Also, \$4,000 per month is deposited for replacement or purchase of short-term assets. This fund also receives the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment.

Operation and Maintenance Fund

This fund receives, on a monthly basis, sufficient amounts to pay current expenses from the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches two months of forecasted operating expenses. Any surplus left may be added to the Bond and Interest Redemption Fund.

The District requires new customers to provide a \$60 deposit for initial water service. Current customers in good standing who add additional service locations are not required to pay an additional deposit.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

Bond and note maturities and Sinking Fund requirements in each of the next five years and in five year increments thereafter are as follows at December 31, 2022:

Year	Revenue Bonds			Notes		
	Principal	Interest	Totals	Principal	Interest	Totals
2023	\$ 1,020,700	\$ 333,084	\$ 1,353,784	\$ 289,022	\$ 110,978	\$ 400,000
2024	1,065,700	306,777	1,372,477	296,956	103,044	400,000
2025	1,089,900	278,715	1,368,615	305,108	94,892	400,000
2026	788,900	254,901	1,043,801	313,483	86,517	400,000
2027	552,400	238,915	791,315	322,088	77,912	400,000
2028-2032	2,700,800	996,464	3,697,264	1,748,014	251,986	2,000,000
2033-2037	1,531,000	686,099	2,217,099	768,224	31,776	800,000
2038-2042	756,000	453,332	1,209,332	-	-	-
2043-2047	503,000	353,423	856,423	-	-	-
2048-2052	616,000	243,939	859,939	-	-	-
2053-2057	753,500	109,624	863,124	-	-	-
2058	168,500	3,337	171,837	-	-	-
Total	<u>\$ 11,546,400</u>	<u>\$4,258,610</u>	<u>\$ 15,805,010</u>	<u>\$4,042,895</u>	<u>\$ 757,105</u>	<u>\$ 4,800,000</u>
	Sinking Fund Requirements					
Year						
2023	\$ 1,753,784					
2024	1,772,477					
2025	1,768,615					
2026	1,443,801					
2027	1,191,315					
2028-2032	5,697,264					
2033-2037	3,017,099					
2038-2042	1,209,332					
2043-2047	856,423					
2048-2052	859,939					
2053-2057	863,124					
2058	171,837					
Total	<u>\$ 20,605,010</u>					

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021NOTE 7 - RETIREMENT PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements, required supplementary information and detailed information about CERS' fiduciary net position. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly has the authority to increase, suspend or reduce COLAs. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

Contributions

For the calendar year ended December 31, 2022, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding 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.

The District's contractually required contribution rate for the calendar year ended December 31, 2022, was 21.17 percent for the period January 1 to June 30 and 23.40 percent for the period July 1 through December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2021, was 19.30 percent for the period January 1 to June 30 and 21.17 percent for the period July 1 through December 31. Contributions to the pension plan for the years ended December 31, 2022 and 2021 from the District were \$983,871 and \$837,969. At December 31, 2022 and 2021, the District owed \$132,668 and \$110,638 to the plan for employer and member contributions for December.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2022, the District reported a liability of \$10,645,518 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 using standard roll-forward techniques. 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, actuarially determined. At June 30, 2022, the District's proportion was 0.147261 percent, which was a decrease of .008123 percent from its proportion measured as of June 30, 2021.

For the years ended December 31, 2022 and 2021, the District recognized pension expense of \$983,871 and \$837,969. At December 31, 2022 and 2021, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2022</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 11,381	\$ 94,803
Difference between projected and actual investment earnings	1,448,536	1,175,624
Changes in proportion and proportionate share of contributions	<u>140,264</u>	<u>357,087</u>
	<u>\$ 1,600,181</u>	<u>\$ 1,627,514</u>
	 <u>2021</u> 	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 113,762	\$ 96,154
Changes in actuarial assumptions	132,963	-
Difference between projected and actual investment earnings	384,324	1,704,754
Changes in proportion and proportionate share of contributions	<u>455,646</u>	<u>-</u>
	<u>\$ 1,086,695</u>	<u>\$ 1,800,908</u>

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

The total pension liability in the June 30, 2022 actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.25 percent
Inflation	2.30 percent
Salary increases	3.30 percent to 10.30 percent, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

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

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Core Fixed Income	10.00%	28.00%
Specialty Credit	10.00%	2.28%
Cash	0.00%	-0.91%
Real Estate	7.00%	3.67%
Real Return	<u>13.00%</u>	4.07%
Total	<u><u>100.00%</u></u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate of 6.25% for CERS Nonhazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in 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 projection of cash flows used to determine the discount rate The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the Annual Comprehensive Financial Report (ACFR).

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 13,305,576	\$ 10,645,518	\$ 8,445,428

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. CERS' report may be obtained at www.kyret.ky.gov.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky and is a cost-sharing multiple-employer defined benefit plan. CERS provides other post-employment benefits to plan members and beneficiaries. The Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov. The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021Benefits provided

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

Contributions

For the calendar year ended December 31, 2021, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding 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.

The District's contractually required contribution rate for the calendar year ended December 31, 2022, was 5.78 percent of creditable compensation from January 1 to June 30 and 3.39 percent of creditable compensation from July 1 through December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2021, was 4.76 percent of creditable compensation from January 1 to June 30 and 5.78 percent of creditable compensation from July 1 through December 31. Contributions to the OPEB plan from the District were \$197,427 for the year ended December 31, 2022 and \$218,861 for the year ended for the year ended December 31, 2021. At December 31, 2022 and 2021, the District owed \$19,220 and \$30,207 to the plan for contributions for December.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2022, the District reported a liability of \$2,905,703 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 using standard roll-forward techniques. 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 participants, actuarially determined. At June 30, 2022, the District's proportion was 0.147235 percent, which was a decrease of .008113 percent from its proportion measured as of June 30, 2021.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

For the years ended December 31, 2022 and 2021, the District recognized OPEB expense of \$197,427 and \$218,861. At December 31, 2022 and 2021, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>2022</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 292,483	\$ 666,345
Changes in actuarial assumptions	459,557	378,672
Difference between projected and actual investment earnings	541,072	423,137
Changes in proportion and proportionate share of contributions	<u>161,743</u>	<u>136,924</u>
	<u>\$ 1,454,855</u>	<u>\$ 1,605,078</u>
	<u>2021</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 467,672	\$ 887,955
Changes in actuarial assumptions	788,480	2,765
Difference between projected and actual investment earnings	149,842	615,092
Changes in proportion and proportionate share of contributions	<u>235,845</u>	<u>1,460</u>
	<u>\$ 1,641,839</u>	<u>\$ 1,507,272</u>

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% to 10.30%, including inflation
Inflation rate	2.30%
Real Wage Growth	2.00%
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% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Municipal Bond Index Rate	3.69%
Discount Rate	5.70%

The mortality table used for active members is Pub-2010 General Mortality Table projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010. For disabled members, the Pub-2010 Disabled Mortality Table projected with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

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

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Core Fixed Income	10.00%	28.00%
Specialty Credit	10.00%	2.28%
Cash	0.00%	-0.91%
Real Estate	7.00%	3.67%
Real Return	<u>13.00%</u>	4.07%
Total	<u>100.00%</u>	

The projection of cash flows used to determine the discount rate of 5.70% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2022. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the ACFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30 2028, for the CERS plans.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.70%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.70%) or 1-percentage-point higher (6.70%) than the current rate:

	1% Decrease (4.70%)	Current Discount Rate (5.70%)	1% Increase (6.70%)
District's proportionate share of the net OPEB liability	\$ 3,884,461	\$ 2,905,703	\$2,096,596

Sensitivity Of The District's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Healthcare Cost Trend Rates

The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 2,160,325	\$ 2,905,703	\$3,800,760

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. CERS' report may be obtained at www.kyret.ky.gov.

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2022 AND 2021NOTE 9 - SELF-INSURANCE

In January 2017, the District implemented a self-insured health insurance plan. Revenues are recognized from payroll deductions for employee dependent coverage and from contributions for employee coverage. Liabilities for unpaid claims are estimated based on a review of claims incurred during the fiscal year but not paid until the following fiscal year. Changes in claims liability during the years ended December 31, 2022 and 2021, were as follows:

Year Ended December 31,	Balance at beginning of year	Current-year claims and changes in estimates	Claim payments and transfers	Balance at end year
2022	\$ 21,299	\$ 1,119,627	\$ 1,050,228	\$ 90,698
2021	\$ 24,412	\$ 1,203,858	\$ 1,206,971	\$ 21,299

Claims due within one year at December 31, 2022 and 2021 were \$90,698 and \$21,299. The health care coverage program maintains a policy with a commercial insurance company that covers any claims greater than \$35,000 per year per employee and also covers any aggregate claims greater than \$946,819 per year. For the years ended December 31, 2022, 2021 and 2020, no settlements exceeded insurance coverage.

NOTE 10 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2022 and 2021:

Source	2022	2021
State of Kentucky	\$ 29,090	\$ 132,204
Relocation	27,049	207,399
Tap Fees	595,658	419,811
Developers	3,308	3,126
	<u>\$ 655,105</u>	<u>\$ 762,540</u>

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HARDIN COUNTY WATER DISTRICT NO. 2NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2021 AND 2020NOTE 11 – RENTAL AGREEMENTS

The District has entered into agreements to lease space on its water towers to various customers. Rental income during the years ended December 31, 2022 and 2021 was \$95,658 and \$94,135. The following schedule represents future payments to be received. Each agreement provides for optional renewals. The schedule below reflects payments to be received under current agreements and does not include renewals after the current term.

2023	\$ 79,192
2024	46,341
2025	46,341
2026	46,341
2027	<u>46,341</u>
Total	<u>\$ 264,556</u>

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The District is subject to various legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the basic financial statements as a result of the cases presently in progress.

The District has construction commitments for ongoing projects.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss.

NOTE 13 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District was insured for workers' compensation, general liability and automobile liability coverage under a retrospectively rated commercial policy.

NOTE 14 – SPECIAL ITEM

During 2021, the District sold its primary office location and moved into a new location.

REQUIRED SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

December 31, 2022

Last 10 Years *

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Proportion of the net pension liability	0.147261%	0.155384%	0.150811%	0.144962%
Proportionate share of the net pension liability	\$ 10,645,518	\$ 9,906,949	\$ 11,567,079	\$ 10,195,242
Covered payroll	\$ 4,204,813	\$ 4,068,643	\$ 3,896,841	\$ 3,712,766
Proportionate share of the net pension liability as percentage of covered payroll	253.2%	243.5%	296.8%	274.6%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.45%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.133757%	0.129145%	0.119917%	0.104554%
Proportionate share of the net pension liability	\$ 8,146,209	\$ 7,559,254	\$ 5,904,253	\$ 4,495,343
Covered payroll	\$ 3,313,033	\$ 3,233,237	\$ 2,993,522	\$ 2,638,530
Proportionate share of the net pension liability as percentage of covered payroll	245.9%	233.8%	197.2%	170.4%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	59.97%

* Calendar year 2015 was the first year of implementation, therefore, only eight years are shown.

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY

December 31, 2022

Last 10 Years *

	<u>2022</u>	<u>2021</u>	
Proportion of the net OPEB liability	0.147235%	0.155348%	
Proportionate share of the net OPEB liability	\$ 2,905,703	\$ 2,974,060	
Covered payroll	\$ 4,204,813	\$ 4,068,643	
Proportionate share of the net OPEB liability as percentage of covered payroll	69.1%	73.1%	
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.150767%	0.144924%	0.133752%
Proportionate share of the net OPEB liability	\$ 3,640,565	\$ 2,437,556	\$ 2,374,740
Covered payroll	\$ 3,896,841	\$ 3,712,766	\$ 3,313,033
Proportionate share of the net OPEB liability as percentage of covered payroll	93.4%	65.7%	71.7%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%

* Calendar year 2018 was the year of implementation, therefore, only five years are shown.

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

December 31, 2022

Last 10 Years *

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution (actuarially determined)	\$ 983,871	\$ 837,969	\$ 778,089	\$ 686,443
Contribution in relation to the actuarially determined contributions	<u>983,871</u>	<u>837,969</u>	<u>778,089</u>	<u>686,443</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,397,392	\$ 4,130,437	\$ 4,031,549	\$ 3,855,138
Contributions as a percentage of covered payroll	22.37%	20.29%	19.30%	17.81%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 539,096	\$ 456,294	\$ 412,832	\$ 312,163
Contribution in relation to the actuarially determined contributions	<u>539,096</u>	<u>456,294</u>	<u>412,832</u>	<u>312,163</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,501,613	\$ 3,208,084	\$ 3,117,060	\$ 2,939,133
Contributions as a percentage of covered payroll	15.40%	14.22%	13.24%	10.62%

* Calendar year 2015 was the first year of implementation, therefore, only eight years are shown.

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

December 31, 2022

Last 10 Years *

	<u>2022</u>	<u>2021</u>	
Contractually required contribution (actuarially determined)	\$ 197,427	\$ 218,861	
Contribution in relation to the actuarially determined contributions	<u>197,427</u>	<u>218,861</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Covered payroll	\$ 4,397,392	\$ 4,130,437	
Contributions as a percentage of covered payroll	4.49%	5.30%	
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 191,902	\$ 192,855	\$ 174,895
Contribution in relation to the actuarially determined contributions	<u>191,902</u>	<u>192,855</u>	<u>174,895</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,031,549	\$ 3,855,138	\$ 3,501,613
Contributions as a percentage of covered payroll	4.76%	5.00%	5.00%

* Calendar year 2018 was the year of implementation, therefore, only five years are shown.

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2022

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2022.

Changes of assumptions (as of June 30 of the year measurement date):

2015 – The assumed investment rate of return was decreased from 7.75% to 7.50%. The assumed rate of inflation was reduced from 3.50% to 3.25%. The assumed rate of wage inflation was reduced from 1.00% to 0.75%. Payroll growth assumption was reduced from 4.50% to 4.00%. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

2016 and 2017 – No changes.

2018 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2019 – Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

2020, 2021 and 2022 – No changes.

HARDIN COUNTY WATER DISTRICT NO. 2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2022

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 through 2022

Changes of assumptions (as of June 30 of the year measurement date):

2018 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. The municipal bond rate increased from 3.56% to 3.62%.

2019 – The discount rate was changed from 5.85% to 5.68%. Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members. The municipal bond rate decreased from 3.62% to 3.13%.

2020 – The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. The municipal bond rate decreased from 3.13% to 2.45%.

2021 – The discount rate used to calculate the total OPEB liability decreased from 5.34% to 5.20%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The municipal bond rate decreased from 2.45% to 1.92%

2022 – The discount rate used to calculate the total OPEB liability increased from 5.20% to 5.70%. The municipal bond rate increased from 1.92% to 3.69%.

OTHER SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE I - BOND AND INTEREST REQUIREMENTS
DECEMBER 31, 2022

	\$ 6,070,000 2012 SERIES		\$ 3,400,000 2016 SERIES A	
	BOND	INTEREST	BOND	INTEREST
2023	\$ 220,000	\$ 124,725	\$ 41,500	\$ 128,292
2024	230,000	119,238	43,000	126,977
2025	235,000	113,425	44,500	124,914
2026	245,000	107,119	46,500	123,127
2027	245,000	100,381	48,500	121,261
2028	255,000	93,506	50,500	119,641
2029	265,000	86,356	52,500	117,294
2030	270,000	78,663	54,500	115,192
2031	280,000	70,063	57,000	113,002
2032	295,000	60,719	59,500	111,014
2033	300,000	50,675	62,000	108,328
2034	210,000	41,750	64,500	105,843
2035	220,000	34,225	67,000	103,260
2036	230,000	26,063	70,000	100,841
2037	235,000	17,344	72,500	97,770
2038	250,000	8,250	75,500	94,864
2039	85,000	1,969	79,000	91,829
2040	10,000	188	82,000	88,906
2041			85,500	85,377
2042			89,000	81,949
2043			92,500	78,385
2044			96,500	74,872
2045			100,500	70,804
2046			104,500	66,777
2047			109,000	62,585
2048			113,500	58,367
2049			118,000	53,667
2050			123,000	48,934
2051			128,000	44,004
2052			133,500	38,967
2053			139,000	33,516
2054			144,500	27,947
2055			150,500	22,153
2056			156,500	16,159
2057			163,000	9,849
2058			168,500	3,337
	<u>\$ 4,080,000</u>	<u>\$ 1,134,659</u>	<u>\$ 3,286,000</u>	<u>\$ 2,870,004</u>

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE I - BOND AND INTEREST REQUIREMENTS
DECEMBER 31, 2022
(CONTINUED)

	\$ 2,180,000 2016 SERIES B		\$ 2,430,000 2016 SERIES C	
	BOND	INTEREST	BOND	INTEREST
2023	\$ 225,000	\$ 24,975	\$ 295,000	\$ 23,325
2024	235,000	18,075	310,000	14,250
2025	240,000	10,950	320,000	4,800
2026	245,000	3,675		
2027				
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2058	<u>\$ 945,000</u>	<u>\$ 57,675</u>	<u>\$ 925,000</u>	<u>\$ 42,375</u>

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE I - BOND AND INTEREST REQUIREMENTS
DECEMBER 31, 2022
(CONTINUED)

	\$ 2,430,000 2022 SERIES A		TOTAL ALL ISSUES	
	<u>BOND</u>	<u>INTEREST</u>	<u>BOND</u>	<u>INTEREST</u>
2023	\$ 239,200	\$ 31,767	\$ 1,020,700	\$ 333,084
2024	247,700	28,237	1,065,700	306,777
2025	250,400	24,626	1,089,900	278,715
2026	252,400	20,980	788,900	254,901
2027	258,900	17,273	552,400	238,915
2028	264,500	13,477	570,000	226,624
2029	259,700	9,678	577,200	213,328
2030	264,400	5,878	588,900	199,733
2031	273,200	1,981	610,200	185,046
2032			354,500	171,733
2033			362,000	159,003
2034			274,500	147,593
2035			287,000	137,485
2036			300,000	126,904
2037			307,500	115,114
2038			325,500	103,114
2039			164,000	93,798
2040			92,000	89,094
2041			85,500	85,377
2042			89,000	81,949
2043			92,500	78,385
2044			96,500	74,872
2045			100,500	70,804
2046			104,500	66,777
2047			109,000	62,585
2048			113,500	58,367
2049			118,000	53,667
2050			123,000	48,934
2051			128,000	44,004
2052			133,500	38,967
2053			139,000	33,516
2054			144,500	27,947
2055			150,500	22,153
2056			156,500	16,159
2057			163,000	9,849
2058			168,500	3,337
	<u>\$ 2,310,400</u>	<u>\$ 153,897</u>	<u>\$ 11,546,400</u>	<u>\$ 4,258,610</u>

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSESYEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Salaries	\$ 1,473,127	\$ 1,366,552
Commissioner's salaries	29,964	30,200
Employee benefits	1,036,126	1,050,482
Materials and supplies	38,827	25,759
Professional fees and contractual services	319,117	309,455
Insurance	117,202	97,071
Advertising	4,396	1,843
Provision for bad debts	74,475	57,321
Other general and administrative	263,492	216,278
	<u>\$ 3,356,726</u>	<u>\$ 3,154,961</u>

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2022

WATER COMMISSIONERS

Michael Bell – Chairman
Cordell Tabb – Secretary/Treasurer
Morris Miller – Member
Tim Davis – Member
John Effinger – Member – Until November
Steve Smith – Member – Beginning December

GENERAL MANAGER

Shaun Youravich

ATTORNEY

Stoll, Keenon, Ogden, PLLC

CALENDAR YEAR

January 1 to December 31

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE IV - COMBINING SCHEDULE OF NET POSITION - WATER & SEWER DIVISIONSDECEMBER 31, 2022 AND 2021

<u>ASSETS</u>	<u>Water</u>	2022 <u>Sewer</u>	<u>Total</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 6,427,173	\$ 462,618	\$ 6,889,791
Investments	9,106,314	-	9,106,314
Accounts receivable, net	1,909,406	7,310	1,916,716
Prepaid expenses	173,327	-	173,327
Interdivison balances	44,563	(44,563)	-
Stop loss receivable	79,283	-	79,283
Materials and supplies	1,606,772	-	1,606,772
	<u>19,346,838</u>	<u>425,365</u>	<u>19,772,203</u>
TOTAL CURRENT ASSETS			
NONCURRENT ASSETS:			
Restricted cash and cash equivalents	8,507,647	419,239	8,926,886
Restricted investments	1,207,394	-	1,207,394
Regulatory asset on CERS pension	10,672,851	-	10,672,851
Regulatory asset on CERS OPEB	3,055,926	-	3,055,926
Non-depreciable capital assets	2,749,820	857,073	3,606,893
Depreciable capital assets, net of accumulated depreciation	70,439,244	14,789,493	85,228,737
	<u>96,632,882</u>	<u>16,065,805</u>	<u>112,698,687</u>
TOTAL NONCURRENT ASSETS			
TOTAL ASSETS	<u>115,979,720</u>	<u>16,491,170</u>	<u>132,470,890</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refundings	72,440	-	72,440
Deferred amount on CERS pension	1,600,181	-	1,600,181
Deferred amount on CERS OPEB	1,454,855	-	1,454,855
Utility acquisition adjustments	116,765	-	116,765
	<u>3,244,241</u>	<u>-</u>	<u>3,244,241</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES			

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE IV - COMBINING SCHEDULE OF NET POSITION - WATER & SEWER DIVISIONSDECEMBER 31, 2022 AND 2021

	Water	2022 Sewer	Total
CURRENT LIABILITIES:			
Accounts payable	257,866	4,620	262,486
Construction projects payable	93,458	3,788	97,246
Unearned revenue	98,304	-	98,304
Elizabethtown sewer payable	649,332	-	649,332
Accrued taxes	53,796	546	54,342
Accrued liabilities	155,387	-	155,387
Accrued vacation	206,021	-	206,021
Customer deposits	36,638	-	36,638
Customer advances for construction	71,000	-	71,000
Bonds payable	1,020,700	-	1,020,700
Notes payable	289,022	-	289,022
Self-insurance payable	90,698	-	90,698
	<u>3,022,222</u>	<u>8,954</u>	<u>3,031,176</u>
TOTAL CURRENT LIABILITIES			
NONCURRENT LIABILITIES:			
Customer deposits	329,743	-	329,743
Net pension liability - CERS	10,645,518	-	10,645,518
Net OPEB liability - CERS	2,905,703	-	2,905,703
Bonds payable	10,570,427	-	10,570,427
Notes payable	3,753,873	-	3,753,873
	<u>28,205,264</u>	<u>-</u>	<u>28,205,264</u>
TOTAL NONCURRENT LIABILITIES			
TOTAL LIABILITIES	<u>31,227,486</u>	<u>8,954</u>	<u>31,236,440</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on CERS pension	1,627,514	-	1,627,514
Deferred amount on CERS OPEB	1,605,078	-	1,605,078
	<u>3,232,592</u>	<u>-</u>	<u>3,232,592</u>
TOTAL DEFERRED INFLOWS OF RESOURCES			
<u>NET POSITION</u>			
Net investment in capital assets	57,534,024	15,642,778	73,176,802
Restricted for debt service	2,498,168	-	2,498,168
Restricted for capital projects	6,827,658	419,239	7,246,897
Restricted for customers	389,212	-	389,212
Unrestricted	17,514,821	420,199	17,935,020
TOTAL NET POSITION	<u>\$ 84,763,883</u>	<u>\$ 16,482,216</u>	<u>\$ 101,246,099</u>

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE IV - COMBINING SCHEDULE OF NET POSITION - WATER & SEWER DIVISIONS

DECEMBER 31, 2022 AND 2021

<u>ASSETS</u>	<u>Water</u>	<u>2021 Sewer</u>	<u>Total</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 5,263,272	\$ 354,499	\$ 5,617,771
Investments	21,494,368	-	21,494,368
Accounts receivable, net	1,778,332	2,669	1,781,001
Prepaid expenses	243,234	-	243,234
Interdivison balances	4,360	(4,360)	-
Stop loss receivable	13,296	-	13,296
State grants receivable	-	14,380	14,380
Materials and supplies	604,062	-	604,062
TOTAL CURRENT ASSETS	29,400,924	367,188	29,768,112
NONCURRENT ASSETS:			
Restricted cash and cash equivalents	7,617,371	408,174	8,025,545
Restricted investments	1,207,394	-	1,207,394
Regulatory asset on CERS pension	10,621,162	-	10,621,162
Regulatory asset on CERS OPEB	2,839,493	-	2,839,493
Non-depreciable capital assets	8,888,759	831,216	9,719,975
Depreciable capital assets, net of accumulated depreciation	64,016,728	15,033,910	79,050,638
TOTAL NONCURRENT ASSETS	95,190,907	16,273,300	111,464,207
TOTAL ASSETS	124,591,831	16,640,488	141,232,319
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refundings	89,617	-	89,617
Deferred amount on CERS pension	1,086,695	-	1,086,695
Deferred amount on CERS OPEB	1,641,839	-	1,641,839
Utility acquisition adjustments	126,495	-	126,495
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,944,646	-	2,944,646

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE IV - COMBINING SCHEDULE OF NET POSITION - WATER & SEWER DIVISIONSDECEMBER 31, 2022 AND 2021

	<u>Water</u>	<u>2021 Sewer</u>	<u>Total</u>
CURRENT LIABILITIES:			
Accounts payable	221,213	5,480	226,693
Construction projects payable	450,993	963	451,956
Unearned revenue	108,471	-	108,471
Interest payable	11,457	-	11,457
Elizabethtown sewer payable	539,315	-	539,315
Accrued taxes	53,676	993	54,669
Accrued liabilities	158,169	-	158,169
Accrued vacation	176,873	-	176,873
Customer deposits	39,671	-	39,671
Customer advances for construction	61,000	-	61,000
Bonds payable	1,019,500	-	1,019,500
Notes payable	281,301	-	281,301
Self-insurance payable	21,299	-	21,299
TOTAL CURRENT LIABILITIES	<u>3,142,938</u>	<u>7,436</u>	<u>3,150,374</u>
NONCURRENT LIABILITIES:			
Customer deposits	357,041	-	357,041
Net pension liability - CERS	9,906,949	-	9,906,949
Net OPEB liability - CERS	2,974,060	-	2,974,060
Bonds payable	12,227,194	-	12,227,194
Notes payable	4,042,895	-	4,042,895
Bond anticipation note payable	5,263,738	-	5,263,738
TOTAL NONCURRENT LIABILITIES	<u>34,771,877</u>	<u>-</u>	<u>34,771,877</u>
TOTAL LIABILITIES	<u>37,914,815</u>	<u>7,436</u>	<u>37,922,251</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on CERS pension	1,800,908	-	1,800,908
Deferred amount on CERS OPEB	1,507,272	-	1,507,272
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,308,180</u>	<u>-</u>	<u>3,308,180</u>
<u>NET POSITION</u>			
Net investment in capital assets	49,709,483	15,864,163	65,573,646
Restricted for debt service	2,463,650	-	2,463,650
Restricted for capital projects	5,924,570	408,174	6,332,744
Restricted for customers	436,545	-	436,545
Unrestricted	27,779,234	360,715	28,139,949
TOTAL NET POSITION	<u>\$ 86,313,482</u>	<u>\$ 16,633,052</u>	<u>\$ 102,946,534</u>

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE V - COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - WATER & SEWER DIVISIONSYEARS ENDED DECEMBER 31, 2022 AND 2021

	Water	2022 Sewer	Total
OPERATING REVENUES:			
Water sales	\$ 14,685,398	\$ -	\$ 14,685,398
Sewer sales	-	212,813	212,813
Other operating income	790,031	859	790,890
TOTAL OPERATING REVENUES	15,475,429	213,672	15,689,101
OPERATING EXPENSES:			
Power purchased	981,789	10,979	992,768
Purchased water	989,114	-	989,114
Pumping and treatment labor	1,842,679	-	1,842,679
Purification supplies and expense	678,241	-	678,241
Transmission and distribution labor	2,819,865	-	2,819,865
Transmission and distribution supplies and expense	431,585	56,258	487,843
Transmission and distribution maintenance and repairs	97,843	-	97,843
Equipment rental	15,838	4,165	20,003
Transportation expense	294,402	-	294,402
Water treatment maintenance and expense	306,702	-	306,702
General and administrative expenses	3,325,209	31,517	3,356,726
Depreciation	3,211,425	293,938	3,505,363
TOTAL OPERATING EXPENSES	14,994,692	396,857	15,391,549
OPERATING INCOME (LOSS)	480,737	(183,185)	297,552
NON-OPERATING REVENUES (EXPENSES):			
Investment income	(2,327,904)	3,259	(2,324,645)
Other income	300,605	-	300,605
Gain on disposal of capital assets	15,000	-	15,000
Bond issuance costs	(65,450)	-	(65,450)
Interest expense on long-term debt	(573,162)	-	(573,162)
Amortization of bond discount and utility acquisition	(5,440)	-	(5,440)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,656,351)	3,259	(2,653,092)
CAPITAL CONTRIBUTIONS	626,015	29,090	655,105
CHANGE IN NET POSITION	(1,549,599)	(150,836)	(1,700,435)
NET POSITION, beginning of year	86,313,482	16,633,052	102,946,534
NET POSITION, end of year	<u>\$ 84,763,883</u>	<u>\$ 16,482,216</u>	<u>\$ 101,246,099</u>

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE V - COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - WATER & SEWER DIVISIONSYEARS ENDED DECEMBER 31, 2022 AND 2021

	Water	2021 Sewer	Total
OPERATING REVENUES:			
Water sales	\$ 13,896,381	\$ -	\$ 13,896,381
Sewer sales	-	210,885	210,885
Other operating income	891,511	2,654	894,165
TOTAL OPERATING REVENUES	14,787,892	213,539	15,001,431
OPERATING EXPENSES:			
Power purchased	869,270	9,811	879,081
Purchased water	1,146,024	-	1,146,024
Pumping and treatment labor	1,702,455	-	1,702,455
Purification supplies and expense	392,348	-	392,348
Transmission and distribution labor	2,700,897	-	2,700,897
Transmission and distribution supplies and expense	376,023	57,280	433,303
Transmission and distribution maintenance and repairs	70,737	-	70,737
Equipment rental	9,794	-	9,794
Transportation expense	192,479	-	192,479
Water treatment maintenance and expense	228,601	-	228,601
General and administrative expenses	3,129,565	25,396	3,154,961
Depreciation	3,009,282	293,401	3,302,683
TOTAL OPERATING EXPENSES	13,827,475	385,888	14,213,363
OPERATING INCOME (LOSS)	960,417	(172,349)	788,068
NON-OPERATING REVENUES (EXPENSES):			
Investment income	249,134	880	250,014
Other income	280,091	-	280,091
Gain on disposal of capital assets	7,750	-	7,750
Interest expense on long-term debt	(609,902)	-	(609,902)
Amortization of bond discount and utility acquisition	(10,404)	-	(10,404)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(83,331)	880	(82,451)
SPECIAL ITEM - SEE NOTE 14	981,335	-	981,335
CAPITAL CONTRIBUTIONS	630,336	132,204	762,540
CHANGE IN NET POSITION	2,488,757	(39,265)	2,449,492
NET POSITION, beginning of year	83,824,725	16,672,317	100,497,042
NET POSITION, end of year	\$ 86,313,482	\$ 16,633,052	\$ 102,946,534

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE VI - SCHEDULE OF NET POSITION - WATER DIVISION
DECEMBER 31, 2022 AND 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,427,173	\$ 5,263,272
Investments	9,106,314	21,494,368
Accounts receivable, net	1,909,406	1,778,332
Prepaid expenses	173,327	243,234
Due from sewer division	44,563	4,360
Stop loss receivable	79,283	13,296
Materials and supplies	<u>1,606,772</u>	<u>604,062</u>
TOTAL CURRENT ASSETS	19,346,838	29,400,924
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	8,507,647	7,617,371
Restricted investments	1,207,394	1,207,394
Regulatory asset on CERS pension	10,672,851	10,621,162
Regulatory asset on CERS OPEB	3,055,926	2,839,493
Non-depreciable capital assets	2,749,820	8,888,759
Depreciable capital assets, net of accumulated depreciation	<u>70,439,244</u>	<u>64,016,728</u>
TOTAL NONCURRENT ASSETS	96,632,882	95,190,907
TOTAL ASSETS	115,979,720	124,591,831
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refundings	72,440	89,617
Deferred amount on CERS pension	1,600,181	1,086,695
Deferred amount on CERS OPEB	1,454,855	1,641,839
Utility acquisition adjustments	<u>116,765</u>	<u>126,495</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,244,241	2,944,646
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	257,866	221,213
Construction projects payable	93,458	450,993
Unearned revenue	98,304	108,471
Interest payable	-	11,457
Elizabethtown sewer payable	649,332	539,315
Accrued taxes	53,796	53,676
Accrued liabilities	155,387	158,169
Accrued vacation	206,021	176,873
Customer deposits	36,638	39,671
Customer advances for construction	71,000	61,000
Bonds payable	1,020,700	1,019,500
Notes payable	289,022	281,301
Self-insurance payable	<u>90,698</u>	<u>21,299</u>
TOTAL CURRENT LIABILITIES	3,022,222	3,142,938
NONCURRENT LIABILITIES:		
Customer deposits	329,743	357,041
Net pension liability - CERS	10,645,518	9,906,949
Net OPEB liability - CERS	2,905,703	2,974,060
Bonds payable	10,570,427	12,227,194
Notes payable	3,753,873	4,042,895
Bond anticipation note payable	<u>-</u>	<u>5,263,738</u>
TOTAL NONCURRENT LIABILITIES	28,205,264	34,771,877
TOTAL LIABILITIES	31,227,486	37,914,815
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on CERS pension	1,627,514	1,800,908
Deferred amount on CERS OPEB	<u>1,605,078</u>	<u>1,507,272</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	3,232,592	3,308,180
<u>NET POSITION</u>		
Net investment in capital assets	57,534,024	49,709,483
Restricted for debt service	2,498,168	2,463,650
Restricted for capital projects	6,827,658	5,924,570
Restricted for customers	389,212	436,545
Unrestricted	<u>17,514,821</u>	<u>27,779,234</u>
TOTAL NET POSITION	\$ 84,763,883	\$ 86,313,482

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE VII - SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - WATER DIVISIONYEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES:		
Water sales	\$ 14,685,398	\$ 13,896,381
Other operating income	790,031	891,511
TOTAL OPERATING REVENUES	<u>15,475,429</u>	<u>14,787,892</u>
OPERATING EXPENSES:		
Power purchased	981,789	869,270
Purchased water	989,114	1,146,024
Pumping and treatment labor	1,842,679	1,702,455
Purification supplies and expense	678,241	392,348
Transmission and distribution labor	2,819,865	2,700,897
Transmission and distribution supplies and expense	431,585	376,023
Transmission and distribution maintenance and repairs	97,843	70,737
Equipment rental	15,838	9,794
Transportation expense	294,402	192,479
Water treatment maintenance and expense	306,702	228,601
General and administrative expenses	3,325,209	3,129,565
Depreciation	3,211,425	3,009,282
TOTAL OPERATING EXPENSES	<u>14,994,692</u>	<u>13,827,475</u>
OPERATING INCOME	480,737	960,417
NON-OPERATING REVENUES (EXPENSES):		
Investment income	(2,327,904)	249,134
Other income	300,605	280,091
Gain on disposal of capital assets	15,000	7,750
Bond issuance costs	(65,450)	-
Interest expense on long-term debt	(573,162)	(609,902)
Amortization of bond discount and utility acquisition	(5,440)	(10,404)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(2,656,351)</u>	<u>(83,331)</u>
SPECIAL ITEM - SEE NOTE 14	-	981,335
CAPITAL CONTRIBUTIONS	<u>626,015</u>	<u>630,336</u>
CHANGE IN NET POSITION	(1,549,599)	2,488,757
NET POSITION, beginning of year	<u>86,313,482</u>	<u>83,824,725</u>
NET POSITION, end of year	<u>\$ 84,763,883</u>	<u>\$ 86,313,482</u>

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE VIII - SCHEDULE OF NET POSITION - SEWER DIVISIONDECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 462,618	\$ 354,499
Accounts receivable, net	7,310	2,669
State grants receivable	-	14,380
TOTAL CURRENT ASSETS	<u>469,928</u>	<u>371,548</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	419,239	408,174
Non-depreciable capital assets	857,073	831,216
Depreciable capital assets, net of accumulated depreciation	<u>14,789,493</u>	<u>15,033,910</u>
TOTAL NONCURRENT ASSETS	<u>16,065,805</u>	<u>16,273,300</u>
TOTAL ASSETS	<u>16,535,733</u>	<u>16,644,848</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Due to water division	44,563	4,360
Accounts payable	4,620	5,480
Construction projects payable	3,788	963
Accrued taxes	<u>546</u>	<u>993</u>
TOTAL CURRENT LIABILITIES	<u>53,517</u>	<u>11,796</u>
TOTAL LIABILITIES	<u>53,517</u>	<u>11,796</u>
<u>NET POSITION</u>		
Net investment in capital assets	15,642,778	15,864,163
Restricted for capital projects	419,239	408,174
Unrestricted	<u>420,199</u>	<u>360,715</u>
TOTAL NET POSITION	<u>\$ 16,482,216</u>	<u>\$ 16,633,052</u>

HARDIN COUNTY WATER DISTRICT NO. 2SCHEDULE IX - SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - SEWER DIVISIONYEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES:		
Sewer sales	\$ 212,813	\$ 210,885
Other operating income	859	2,654
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	213,672	213,539
OPERATING EXPENSES:		
Power purchased	10,979	9,811
Transmission and distribution supplies and expense	56,258	57,280
Equipment rental	4,165	-
General and administrative expenses	31,517	25,396
Depreciation	293,938	293,401
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	396,857	385,888
OPERATING INCOME (LOSS)	(183,185)	(172,349)
NON-OPERATING REVENUES (EXPENSES):		
Investment income	3,259	880
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	3,259	880
CAPITAL CONTRIBUTIONS	29,090	132,204
	<hr/>	<hr/>
CHANGE IN NET POSITION	(150,836)	(39,265)
NET POSITION, beginning of year	16,633,052	16,672,317
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NET POSITION, end of year	<u>\$ 16,482,216</u>	<u>\$ 16,633,052</u>

INTERNAL CONTROL AND FISCAL COMPLIANCE



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Heartland CPAs and Advisors PLLC

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

Board of Commissioners
Hardin County Water District No. 2
Elizabethtown, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hardin County Water District No. 2, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Hardin County Water District No. 2's basic financial statements and have issued our report thereon dated March 29, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hardin County Water District No. 2's internal control over financial reporting (internal control) to determine the 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 Hardin County Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Hardin County Water District No. 2'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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hardin County Water District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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.



Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
March 29, 2023