

HENDERSON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

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HENDERSON COUNTY WATER DISTRICT
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

The Henderson County Water District provides water services for the residents of Henderson County and Webster County Kentucky who live outside the incorporated limits of the City of Henderson, Kentucky. The following narrative provides an overview of the financial performance of the Henderson County Water District for the years ended December 31, 2021 and 2020.

Overview of the Financial Statements:

This financial report consists of four parts: 1) Management's Discussion and Analysis, 2) Financial Statements, 3) Required Supplemental Information, and 4) Supplemental Information. Included in the financial statements are notes which provide additional detail supporting amounts reported therein. The financial statements of the Henderson County Water District report information using accounting principles similar to those of private sector companies.

The statement of net position, the successor to the balance sheet, includes all of the Henderson County Water District's assets and liabilities and provides information about their nature. It also provides a foundation for evaluating the financial strength of the District.

All of the revenues and expenses are accounted for on the statement of revenues, expenses, and changes in net position. This statement measures the results of the District's operations over the past year. It is used by management and others to evaluate whether the District was successful in recovering all of its costs through charges for sale of water and generated a profit.

The last statement is the statement of cash flows. This statement provides information regarding the District's cash receipts, payments, investing (capital expenditures), and financing activities. The sources and uses of cash are summarized in this report which also reconciles the changes in cash balances from the beginning of the year to the end.

Financial Highlights:

The Henderson County Water District's total assets decreased by \$77,536 from \$15,744,353 in 2020 to \$15,666,817 in 2021, primarily due to decreases in capital assets as a result of depreciation.

Operating revenues for 2021 increased by \$163,689, from \$3,097,390 in 2020 to \$3,261,079 in 2021, primarily due to an increase in penalties and miscellaneous billings and an increase in unbilled water revenue. For the majority of 2020, the District could not enforce penalties due to mandates as a result COVID-19.

Operating expenses increased by \$50,405, or 2%, from \$2,967,097 in 2020 to \$3,017,502 in 2021, primarily attributable to the increase of maintenance, retirement, and insurance expenses.

Operating income increased by \$113,284, or 87%, from \$130,293 in 2020 to \$243,577 in 2021, due to the changes in operative revenues and expenses noted previously.

Condensed Financial Information:

A summary of condensed financial information is as follows:

	December 31, 2021	December 31, 2020	Change	Percentage
Current assets	\$ 1,944,633	\$ 1,666,559	\$ 278,074	17%
Restricted assets	909,750	953,966	(44,216)	-5%
Noncurrent assets	73,961	76,867	(2,906)	-4%
Capital assets	12,270,543	12,582,273	(311,730)	-2%
Deferred outflows of resources	467,930	464,688	3,242	1%
Total assets and deferred outflows	<u>\$ 15,666,817</u>	<u>\$ 15,744,353</u>	<u>\$ (77,536)</u>	<u>-0.49%</u>
Current liabilities	\$ 700,366	\$ 629,472	\$ 70,894	11%
Long-term liabilities	4,957,531	5,209,525	(251,994)	-5%
Deferred inflows of resources	131,243	160,277	(29,034)	-18%
Total liabilities and deferred inflows	<u>5,789,140</u>	<u>5,999,274</u>	<u>(210,134)</u>	<u>-4%</u>
Net position				
Invested in capital assets	8,759,233	8,627,801	131,432	2%
Restricted - debt service	909,750	953,966	(44,216)	-5%
Unrestricted	208,694	163,312	45,382	28%
Total net position	<u>9,877,677</u>	<u>9,745,079</u>	<u>132,598</u>	<u>1%</u>
Total liabilities and net position	<u>\$ 15,666,817</u>	<u>\$ 15,744,353</u>	<u>\$ (77,536)</u>	<u>-0.49%</u>

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>Change</u>	<u>Percentage</u>
Operating revenues	\$ 3,261,079	\$ 3,097,390	\$ 163,689	5%
Operating expenses	<u>3,017,502</u>	<u>2,967,097</u>	50,405	2%
Operating income	<u>243,577</u>	<u>130,293</u>	113,284	87%
Non-operating revenues, net	(140,479)	(113,850)	(26,629)	-23%
Capital contributions	<u>29,500</u>	<u>32,210</u>	(2,710)	-8%
Change in net position	<u>\$ 132,598</u>	<u>\$ 48,653</u>	<u>\$ 83,945</u>	<u>173%</u>

Capital contributions are less than prior year because of a higher shared cost of fire hydrant install in the prior year. Total net position increased by \$83,945, largely due to the increase in operating income.

Statement of Cash Flows:

The following is a summary of cash flow activity for the fiscal years ended December 31, 2021 and 2020:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>Change</u>	<u>Percentage</u>
Net cash provided (used) by:				
Operating activities	\$ 698,789	\$ 658,119	\$ 40,670	6%
Non-capital financing	15,344	14,326	1,018	7%
Capital and related financing	(641,548)	(637,071)	4,477	1%
Investing activities	<u>10,502</u>	<u>5,692</u>	4,810	85%
Net change in cash and cash equivalents	<u>\$ 83,087</u>	<u>\$ 41,066</u>	<u>\$ 42,021</u>	<u>102%</u>

Cash flows from operating activities were more by \$40,670 due primarily to the increase in penalties and the decrease in payments to suppliers for goods and services from the prior year. Cash used by capital and related financing activities increased by \$4,477 due to increase in principal and interest paid in the current year. Cash flows from investing activities increased by \$4,810 as there was less of a decrease in investments from the prior year.

Capital Assets:

The vast majority of the assets of the Henderson County Water District are invested in the system infrastructure, similar to most utility operations. To protect this investment, the District is diligent in continually monitoring the condition of the system and performing maintenance to ensure it remains in a state of good repair. Management monitors its financial performance regularly to ensure a reasonable return on investment is received so that funds are available to provide for capital expenditures necessary to meet these objectives. The District expended \$187,163 on capital assets during 2021, and \$144,953 during 2020.

Long-term Debt:

As of December 31, 2021, the Henderson County Water District has \$3,097,697 in long-term debt outstanding, consisting of an Old National Bank Loan in the amount of \$117,347, Revenue Bond Series 2013 and 2013A in the amount of \$1,800,350, and Revenue Bond Series 2016B in the amount of \$1,180,000. Revenues of the District are pledged to secure these obligations.

Economic Factors:

Revenue increased during 2021 due to the District's ability to assess penalties all year (prior year penalties were suspended due to COVID-19 mandates) and receivables are more as the District was allowed to back-bill an increased rate that was not able to be put into effect until the end of the year. Given the current rise in costs of supplies, the District remains diligent in monitoring costs and budgets in order to maintain their strong financial position.

Contact Information:

The financial statements are designed to provide our citizens, customers, and creditors with a general overview of the Henderson County Water District's results of operations. Additional information can be obtained by contacting Mr. Pete Conrad, Superintendent of the Henderson County Water District at 655 South Main Street, P.O. Box 655, Henderson, Kentucky 42420, or telephonically at 270-826-9802.



INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Henderson County Water District
Henderson, Kentucky

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Henderson County Water District, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Henderson County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Henderson County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the

aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Henderson County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Henderson County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-2, and the schedule of the District's proportionate share of net pension liability to the county employee retirement system on page 29, the schedule of the District's contributions to the Kentucky Retirement System on page 30, the schedule of the District's proportionate share of net OPEB liability to the non-hazardous medical insurance plan on page 31, and the schedule of the District's contributions to medical insurance plan of the Kentucky Retirement System on page 32 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Henderson County Water District's basic financial statements. The accompanying schedule of revenues, expenses and changes in net position – budget and actual and the schedule of system maintenance, customer accounts and administrative expenses 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, the schedule of revenues, expenses and changes in net position – budget and actual and the schedule of system maintenance, customer accounts and administrative expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022, on our consideration of the Henderson County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Henderson County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Henderson County Water District's internal control over financial reporting and compliance.

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Henderson, Kentucky
March 29, 2022

HENDERSON COUNTY WATER DISTRICT

Statements of Net Position
December 31, 2021 and 2020

	2021	2020
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 801,057	\$ 671,883
Investments, at cost	542,924	539,676
Receivables, net	477,947	343,537
Interest receivable	4,520	4,520
Inventories	85,235	75,722
Prepaid expenses	32,950	31,221
Total current assets	<u>1,944,633</u>	<u>1,666,559</u>
Utility, plant, equipment and construction in progress	<u>12,270,543</u>	<u>12,582,273</u>
Other non-current assets:		
Restricted cash and cash equivalents	534,635	580,722
Restricted investments, at cost	375,115	373,244
Other investments, at cost	73,961	76,867
Total other non-current assets	<u>983,711</u>	<u>1,030,833</u>
Total assets	<u>15,198,887</u>	<u>15,279,665</u>
Deferred outflows of resources	<u>467,930</u>	<u>464,688</u>
Total assets and deferred outflows	<u>15,666,817</u>	<u>15,744,353</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	150,845	120,072
Interest payable	53,907	54,998
Other liabilities	82,001	49,474
Bonds and notes payable, net	413,613	404,928
Total current liabilities	<u>700,366</u>	<u>629,472</u>
Non-current liabilities:		
Customer security deposits	150,790	135,446
Net pension liability	1,709,044	1,524,535
Bonds and notes payable, net	3,097,697	3,549,544
Total non-current liabilities	<u>4,957,531</u>	<u>5,209,525</u>
Total liabilities	<u>5,657,897</u>	<u>5,838,997</u>
Deferred inflows of resources	<u>131,243</u>	<u>160,277</u>
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	8,759,233	8,627,801
Restricted for debt service	909,750	953,966
Unrestricted	208,694	163,312
Total net position	<u>\$ 9,877,677</u>	<u>\$ 9,745,079</u>

HENDERSON COUNTY WATER DISTRICT
Statements of Revenues, Expenses and Changes in Fund Net Position
December 31, 2021 and 2020

	2021	2020
Operating revenues:		
Water	\$ 3,163,386	\$ 3,045,077
Penalties and sundry	97,693	52,313
Total operating revenues	<u>3,261,079</u>	<u>3,097,390</u>
Operating expenses:		
Purchased water	1,387,417	1,398,344
Pumping utilities	56,882	54,859
Maintenance of system	296,589	294,744
Vehicle and equipment	31,480	23,553
Customer accounts	140,924	122,826
Administration	706,168	655,670
Depreciation	398,042	417,101
Total operating expenses	<u>3,017,502</u>	<u>2,967,097</u>
Operating income	<u>243,577</u>	<u>130,293</u>
Non-operating revenues (expenses):		
Investment income	9,808	24,259
Interest expense	(154,436)	(131,855)
Gain (loss) on disposal of assets	4,149	(6,254)
Total non-operating revenues (expenses)	<u>(140,479)</u>	<u>(113,850)</u>
Income (loss) before contributions	103,098	16,443
Capital contributions	<u>29,500</u>	<u>32,210</u>
Change in net position	132,598	48,653
Net position, beginning of year, as previously stated	<u>9,745,079</u>	<u>9,696,426</u>
Net position, end of year	<u>\$ 9,877,677</u>	<u>\$ 9,745,079</u>

HENDERSON COUNTY WATER DISTRICT

Statements of Cash Flows
December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 3,028,976	\$ 3,060,690
Cash payments to suppliers for goods and services	(1,758,243)	(1,818,524)
Cash payments to employees for services	(669,637)	(636,360)
Other operating revenues	97,693	52,313
Net cash provided by operating activities	<u>698,789</u>	<u>658,119</u>
Cash flows from noncapital financing activities:		
Increase (decrease) in customer deposits	15,344	14,326
Net cash provided by noncapital financing activities	<u>15,344</u>	<u>14,326</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(87,163)	(144,953)
Proceeds from sale of land	5,000	-
Capital contributions	29,500	32,210
Principal paid on revenue bond maturities and other capital notes	(435,928)	(392,761)
Interest paid on revenue bonds and other capital notes	(152,957)	(131,567)
Net cash (used) by capital and related financing activities	<u>(641,548)</u>	<u>(637,071)</u>
Cash flows from investing activities:		
(Increase) decrease in investment securities	(2,213)	(17,607)
Interest income	12,715	23,299
Net cash provided by investing activities	<u>10,502</u>	<u>5,692</u>
Net increase (decrease) in cash and cash equivalents	83,087	41,066
Cash and cash equivalents, beginning of year	<u>1,252,605</u>	<u>1,211,539</u>
Cash and cash equivalents, end of year	<u>\$ 1,335,692</u>	<u>\$ 1,252,605</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 243,577	\$ 130,293
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	398,042	417,101
Pension expense	248,134	248,223
(Increase) decrease in accounts receivable	(134,410)	15,613
(Increase) decrease in inventories	(9,513)	2,308
(Increase) decrease in prepaid expenses	(1,729)	(5,957)
(Increase) decrease in deferred outflows	(107,521)	(105,044)
Increase (decrease) in accounts payable	29,682	(59,100)
Increase (decrease) in accrued liabilities	32,527	14,682
Net cash provided by operating activities	<u>\$ 698,789</u>	<u>\$ 658,119</u>
Summary of cash and cash equivalents:		
Unrestricted cash equivalents	\$ 801,057	\$ 671,883
Restricted cash equivalents	534,635	580,722
Total cash and cash equivalents	<u>\$ 1,335,692</u>	<u>\$ 1,252,605</u>

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Henderson County Water District ("Water District") was created by the fiscal court of Henderson County under the provisions authorized by Chapter 74 of the Kentucky Revised Statutes. The accounting and reporting framework and the more significant accounting principles are discussed in subsequent subsections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Henderson County Water District's financial activities for the year ended December 31, 2021.

A. Financial Reporting Entity

The Henderson County Water District's purpose is to construct, operate and maintain water service facilities and supply water to Henderson and Webster counties. It is legally separate from the Counties of Henderson and Webster, but its governing body is appointed by the Henderson County and Webster County Fiscal Courts.

The financial statements of the Henderson County Water District comprise a single business-type activity generally financed in whole or in part with fees charged to external customers. In evaluating how to define the Water District for financial reporting purposes, management has considered any potential component units, based upon the Water District's ability to exercise significant oversight responsibility. Oversight responsibility was determined on the basis of the Water District's ability to significantly influence operations, select the governing body, and participate in fiscal management and the scope of public service. Based upon the application of these criteria, no potential component units were noted.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned, including unbilled water services which are accrued. Expenses are recorded at the time liabilities are incurred.

The financial statements are prepared on the basis of Governmental Accounting Standards Board (GASB), Statement Number 34, Basic Financial Statements, Management Discussion and Analysis for State and Local Governments and related standards.

The Henderson County Water District is accounted for as an enterprise fund. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, and GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, the Water District applies all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Charges for services include revenues based on exchange or exchange-like transactions, namely water and sewer use. Program-specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

C. Inventories

Inventories are carried at the lower of cost (primarily first-in, first-out) or market.

D. Cash

The Water District reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

E. Investments

KRS 66.480 permits the Commission to invest in U.S. Treasury obligations, U.S. Agency obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit, savings and loan deposits, and the Commonwealth of Kentucky investment pool. Investments are recorded at fair market value based on quoted market prices. Any gains or losses are reflected in the statement of revenues, expenses and changes in net position, in accordance with GASB No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

F. Restricted Assets

Restricted assets are cash and cash equivalents, U.S. Treasury obligations and interest receivables whose use is limited by legal requirements. Restricted assets represent amounts required by debt covenants to be segregated for debt service reserves and future debt payments and accrued interest on long-term debt obligations.

G. Receivables

All receivables are reported net of estimated uncollectible amounts.

H. Donated Lines

From time-to-time prospective users have constructed and paid for line extensions and donated these additions to the Water District. These additions are recorded at cost invoiced to the user and are depreciated at rates based on their estimated useful life. Such additions are recorded as capital contributions.

I. Capital Assets, Depreciation, and Amortization

The Water District's property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the basic financial statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The Public Service Commission has approved an upper limit of \$5,000 below which the cost of an item can be expensed. The District uses a capitalization threshold of \$500.

Estimated useful lives for depreciable assets are as follows:

Buildings	10-50
Distribution systems	15-62.5
Machinery and equipment	5-10
Office equipment and fixtures	5-10

J. Tap Fees

Tap fees collected from new customers are recorded as capital contributions. The cost of installing the service lines and setting the water meters are capitalized and depreciated over their estimated useful lives.

K. Compensated Absences

Accumulated unpaid vacation amounts are reported as "Other liabilities" in the basic financial statements. The accrued compensated balance at December 31, 2021 and 2020 was \$11,347 and \$10,865, respectively.

L. Net Position

Net position presents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the statement of net position. Proprietary fund net position is divided into three components:

Invested in capital assets, net of related debt - 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.

Restricted net position - consist of net position that are restricted by the Water District's creditors (for example through debt covenants), by state enabling legislation, by grantors (both federal and state), and by other contributors.

Unrestricted - all other net position are reported in this category.

M. Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Water District's policy is to apply the expense toward restricted resources and then toward unrestricted resources.

NOTE 2 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The allowance for uncollectible accounts receivable at December 31, 2021 and 2020 was \$2,383 and \$5,469, respectively.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Water District's deposits may not be returned or the Water District will not be able to recover collateral securities in the possession of an outside party. At December 31, 2021, the carrying amount of the Water District's deposits, including certificates of deposit, was \$2,327,692. Of the total bank balances (including certificates of deposit), \$250,000 was covered by Federal Depository Insurance. As of December 31, 2021, the District's demand and time deposits were fully secured by federal depository insurance or by pledged collateral held by the custodial institutions.

Kentucky Revised Statutes authorize governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associates insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

NOTE 4 - INVESTMENTS

Investments stated at cost consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Current:		
Certificates of deposit	\$ 542,924	\$ 539,676
Noncurrent:		
Certificates of deposit, restricted	375,115	373,244
Certificates of deposit, unrestricted	73,961	76,867
	<u>\$ 992,000</u>	<u>\$ 989,787</u>

NOTE 5 - RISK MANAGEMENT

The Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water District purchases commercial insurance for all risks of loss. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 6 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2021 and 2020:

	December 31, 2021			Ending Balance
	Beginning Balance	Increases	Decreases	
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 301,181	\$ -	\$ 665	\$ 300,516
Construction in progress	179,944	7,359	-	187,303
Capital assets, being depreciated:				
Distribution systems	18,847,292	75,309	305	18,922,296
Buildings	1,059,035	-	-	1,059,035
Equipment	815,254	4,495	9,940	809,809
Total capital assets	21,202,706	87,163	10,910	21,278,959
Less: accumulated depreciation				
Distribution systems	7,361,172	320,538	119	7,681,591
Buildings	608,550	39,693	-	648,243
Equipment	650,711	37,811	9,940	678,582
Total accumulated depreciation	8,620,433	398,042	10,059	9,008,416
Capital assets, net	\$12,582,273	\$ (310,879)	\$ 851	\$12,270,543

	December 31, 2020			Ending Balance
	Beginning Balance	Increases	Decreases	
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 301,181	\$ -	\$ -	\$ 301,181
Construction in progress	105,471	74,473	-	179,944
Capital assets, being depreciated:				
Distribution systems	18,772,862	74,430	-	18,847,292
Buildings	1,063,935	-	4,900	1,059,035
Equipment	825,862	2,697	13,305	815,254
Total capital assets	21,069,311	151,600	18,205	21,202,706
Less: accumulated depreciation				
Distribution systems	7,041,753	319,419	-	7,361,172
Buildings	565,976	43,840	1,266	608,550
Equipment	607,554	53,842	10,685	650,711
Total accumulated depreciation	8,215,283	417,101	11,951	8,620,433
Capital assets, net	\$ 12,854,028	\$ (265,501)	\$ 6,254	\$12,582,273

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7 - LONG-TERM DEBT

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

	December 31, 2021			
	Beginning Balance	Additions	Payments	Ending Balance
Revenue bond series 2013	\$ 1,582,500	-	\$ 51,000	\$ 1,531,500
Revenue bond series 2013 A	279,000	-	9,500	269,500
Revenue bond series 2016 B	1,865,000	-	340,000	1,525,000
Old National Bank note	189,387	-	35,428	153,960
	<u>3,915,887</u>	<u>-</u>	<u>435,928</u>	<u>3,479,960</u>
Add: unamortized premiums	38,585	-	7,235	31,350
Bonds/notes payable @ 12/31/21	<u>\$ 3,954,472</u>	<u>-</u>	<u>\$ 443,163</u>	<u>\$ 3,511,310</u>

	December 31, 2020			
	Beginning Balance	Additions	Payments	Ending Balance
Revenue bond series 2013	\$ 1,606,500	-	\$ 24,000	\$ 1,582,500
Revenue bond series 2013 A	283,500	-	4,500	279,000
Revenue bond series 2016 B	2,195,000	-	330,000	1,865,000
Old National Bank note	223,648	-	34,261	189,387
	<u>4,308,648</u>	<u>-</u>	<u>392,761</u>	<u>3,915,887</u>
Add: unamortized premiums	45,820	-	7,235	38,585
Bonds/notes payable @ 12/31/20	<u>\$ 4,354,468</u>	<u>-</u>	<u>\$ 399,996</u>	<u>\$ 3,954,472</u>

On May 12, 2016, the Henderson County Water District issued \$3,080,000 Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds Series 2016 B, interest ranging from 2.25% to 3.25%, to advance refund outstanding 2006 A Water Revenue Bonds and with an outstanding balance of \$3,205,000. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the 2006 A series bond of \$116,209. This difference, reported in the accompanying financial statements as a deferred outflow of resources, will be charged to operations (included in "interest expense") through the year using the straight-line method.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7 - LONG-TERM DEBT, CONTINUED

Bonds and notes payable at December 31, 2021 and 2020 are comprised of the following:

	<u>2021</u>	<u>2020</u>
Notes Payable:		
Note payable to Old National Bank, dated December 2, 2015, due in monthly installments of \$3,428 including interest at 3.25%, secured by a pledge of system revenues	\$ 153,960	\$ 189,387
Revenue Bonds:		
\$3,080,000 Public Projects Water Refunding Revenue Bonds dated May 12, 2016 due in annual installments of \$265,000 to \$285,000 through January 1, 2026, interest payable semiannually on February 1 and August 1, with a rate of 3.25%	1,525,000	1,865,000
Add: Unamortized bond premium	31,350	38,585
\$1,695,000 Waterworks Revenue Bonds, Series 2013 dated July 25, 2012, due in annual installments of \$21,000 and \$79,500 through January 1, 2052, interest payable semiannually on January 1 and July 1, with a rate of 3.75%	1,531,500	1,582,500
\$300,000 Waterworks Revenue Bonds, Series 2013A dated July 25, 2012, due in annual installments of \$4,000 to \$13,500 through January 1, 2053, interest payable semiannually on January 1 and July 1, with a rate of 3.5%	<u>269,500</u>	<u>279,000</u>
Total bonds and notes payable	3,511,310	3,954,472
Less: current portion	<u>413,613</u>	<u>404,928</u>
Long-term portion	<u>\$ 3,097,697</u>	<u>\$ 3,549,544</u>

The annual requirements to amortize all bonds/notes outstanding as of December 31, 2021, including interest payments are as follows:

<u>Year ending December 31</u>	<u>Revenue Bonds/Notes</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 413,613	\$ 107,418	\$ 521,031
2023	420,837	97,186	518,023
2024	343,597	87,727	431,324
2025	350,913	77,627	428,540
2026	322,000	66,485	388,485
2027-2031	206,500	287,630	494,130
2032-2036	248,000	246,322	494,322
2037-2041	298,000	196,750	494,750
2042-2046	357,500	137,166	494,666
2047-2051	428,000	65,749	493,749
2052 and thereafter	91,000	3,384	94,384
	<u>\$ 3,479,960</u>	<u>\$ 1,373,444</u>	<u>\$ 4,853,404</u>

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7 - LONG-TERM DEBT, CONTINUED

The bond indenture agreements include certain stipulations and restrictive covenants. The Water District is in compliance with all significant limitations and restrictions.

NOTE 8 - PENSION PLAN

A. Plan Description

The District participates in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems (KRS), an agency of the Commonwealth of Kentucky. CERS covers all full-time and eligible part-time employees employed in nonhazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of Kentucky Retirement Systems (Board). KRS issues a publicly available financial report that includes audited financial statements and audited required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

B. Benefits Provided

CERS provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date, retirement date and years of service. The information below summarizes the major retirement benefit provisions of CERS. For retirement and benefit purposes, employees are grouped into three tiers. The following summaries are not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Tier 1:

For members whose participation began before September 1, 2008, the following provisions are in force:

Age and service requirement:

- Unreduced Benefit: Age 65, with at least 48 months of service credit.
 - Age 65, with at least one month of non-hazardous duty service credit.
 - Any age with 27 or more years of service credit.
- Reduced Benefit: Age 55, with at least five (5) years of service credit.
 - Any age with at least 25 and up to 27 years of service credit.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 8 - PENSION PLAN, CONTINUED

Benefit Amount:

For members whose participation began before August 1, 2004, if a member has at least 48 months of service, the monthly benefit is 2.2% times final average compensation times years of service. For members whose participation began on or after August 1, 2004, the benefit factor is 2.0%. Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

If a member has at least one month but less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Compensation:

Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used.

Tier 2:

For members whose participation began on or after September 1, 2008, but before January 1, 2014, the following provisions are in force:

Age and service requirement:

Unreduced Benefit: Age 65, with at least 60 months of service credit.

Age 57, if members age and years of service equal 87 (Rule of 87)

Reduced Benefit: Age 60, with at least 120 months of service credit

Benefit Amount:

The monthly benefit is the following benefit factor based on service credit at retirement multiplied by final average compensation, multiplied by years of service.

<u>Service Credit</u>	<u>Benefit Factor</u>
120 months of less	1.10%
121-240 months	1.30%
241-312 months	1.50%
313-360 months	1.75%
Over 360 months	2.00%

Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 8 - PENSION PLAN, CONTINUED

Compensation:

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Tier 3:

For members whose participation began on or after January 1, 2014, the following provisions are in force:

Age and service requirement:

- Unreduced Benefit: Age 65, with at least 60 months of service credit.
Age 57, if members age and years of service equal 87 (Rule of 87)
- Reduced Benefit: Not available

Benefit Amount:

Plan members in Tier 3 participate in and contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a Defined Benefit Plan and a Defined Contribution Plan. Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 5.00% and 4.00%, respectively, of creditable compensation into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

For all tiers, cost of living adjustments (COLA) are provided only if authorized by the Legislature and are at the discretion of the General Assembly. Please refer to the Summary Plan Description, available from KRS, for a complete description of all Plan benefits and provisions.

C. Contributions

Per Kentucky Revised Statutes Sections 78.545 (33), contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board. Plan members, are required to contribute a percentage of their annual creditable compensation based on their benefit tier as follows:

	<u>Required Contributions</u>
Tier 1	5%
Tier 2	5% + 1% for health insurance fund
Tier 3	5% + 1% for health insurance fund

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 8 - PENSION PLAN, CONTINUED

The District's actuarially determined contribution rate for the year ended December 31, 2021, was 24.06% (for the months of January through June) and 26.95% (for the months of July through December) of annual creditable compensation. Of these determined contribution rates, 19.30% and 4.76%, which makes up the 24.06% (for the months of January through June) and 21.17% and 5.78%, which makes up the 26.95% (for the months of July through December) was contributed to the Pension and OPEB Funds within CERS, respectively. Contributions to CERS Pension Fund and OPEB Fund by the District were \$85,230 and \$24,690, respectively, for the year ended December 31, 2021.

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

At December 31, 2021, the District reported a liability of \$1,299,898 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating KRS members, actuarially determined. At June 30, 2020, the District's proportion was 0.016948% for non-hazardous which was a decrease of 0.000546% from its proportion measured as of June 30, 2019. For the year ended December 31, 2021 the District recognized pension expense of \$193,713. At December 31, 2021 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 32,415	\$ -
Changes in assumptions	50,759	-
Net difference between projected and actual investment earnings on pension plan investments	56,346	23,818
Changes in proportion and differences between District contributions and proportionate share of contributions	11,619	21,196
District's contributions subsequent to the measurement date (fiscal year District contributions)	85,230	-
Total	\$ 236,369	\$ 45,014

\$85,230 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 8 - PENSION PLAN, CONTINUED

resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:		
2021	\$	51,293
2022		27,417
2023		14,350
2024		13,064
Thereafter	\$	<u>106,124</u>

E. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Investment rate of return	6.25% net of Plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for the 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.

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, 2008 - June 30, 2013.

Discount rate: The discount rate used to measure the total pension liability was 6.25%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Long term rate of return: The long term rate of return assumption on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in determining the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 8 - PENSION PLAN, CONTINUED

inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

Assumed Asset Allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	

Sensitivity 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%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

	Non-Hazardous		
	1% Decrease	Current Discount	1% Increase
District's proportionate share	(5.25%)	(6.25%)	(7.25%)
of Net Pension Liability	\$1,603,057	\$1,299,898	\$1,048,870

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 8 - PENSION PLAN, CONTINUED

F. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates effective for fiscal year ending 2020 are calculated as of June 30, 2018. Based on the June 30, 2018 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are below:

	<u>Non-Hazardous</u>
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level Percent of Pay
Amortization Period:	25 Years, Closed
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30 to 11.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

G. Changes in Assumptions and Benefit Terms

There were no changes in assumptions or benefit terms since the prior measurement date.

H. Changes Since Measurement Date

There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

I. Pension Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN

A. Plan Description

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KRS, including those in the County Employees Retirement System (CERS), which the District participates. The fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. The allocation of insurance premiums paid by

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

the Fund and amounts withheld from member benefits is based on years of service with the Systems. For member participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Paid by Insurance Fund</u>
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is at the discretion of the Kentucky General Assembly who reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Retirement System Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502-564-4646).

B. Contribution Policy

The District's actuarially determined contribution rate for the year ended December 31, 2021, 24.06% (for the months of January through June) and 26.95% (for the months of July through December) of annual creditable compensation. Of these determined contribution rates, 19.30% and 4.76%, which makes up the 24.06% (for the months of January through June) and 21.17% and 5.78%, which makes up the 26.95% (for the months of July through December) was contributed to the Pension and OPEB

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

Funds within CERS, respectively. Contributions to CERS Pension Fund and OPEB Fund by the District were \$85,230 and \$24,690, respectively, for the year ended December 31, 2021.

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

At December 31, 2021, the District reported a liability of \$409,146 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 insurance plan relative to the projected contributions of all participating KRS members, actuarially determined. At June 30, 2020, the District's proportion was 0.016944% which was a decrease of .000546% from its proportion measured as of June 30, 2019. For the year ended December 31, 2021 the District recognized OPEB expense of \$54,541. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 68,360	\$ 68,413
Changes in assumptions	71,167	433
Net difference between projected and actual investment earnings on pension plan investments	21,948	8,349
Changes in proportion and differences between District contributions and proportionate share of contributions	5,360	9,034
District's contributions subsequent to the measurement date (Current fiscal year District contributions)	24,690	-
Total	\$ 191,525	\$ 86,229

\$24,690 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

Year Ended December 31:	
2021	\$ 21,436
2022	25,461
2023	17,753
2024	16,704
2025	(748)
Thereafter	-
	<u>\$ 80,606</u>

D. Actuarial Assumptions

The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05% to 18.55%, varies by service
Investment rate of return	6.25% net of Plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for the 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 actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

Discount rate: The discount rate used to measure the total OPEB liability was 5.68%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Long term rate of return: The long term rate of return assumption on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in determining the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10 year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: The discount rate determination was 2.45%.

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

Assumed Asset Allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
 Total	 <u>100.00%</u>	

The following presents the net OPEB liability of CERS, calculated using the discount rate of 5.34%, as well as what CERS net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.34%) or one percentage point higher (6.34%) than the current rate for non-hazardous.

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

	<u>Non-Hazardous</u>		
	1% <u>Decrease</u> (4.34%)	<u>Current Discount</u> Rate (5.34%)	<u>1% Increase</u> (6.34%)
District's proportionate share of Net Pension Liability	\$525,633	\$409,146	\$313,472

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

The following presents the District's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rate selected by each OPEB system, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend

	1%	<u>Non-Hazardous</u>	
	<u>Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
District's proportionate share of Net Pension Liability	(4.34%) \$316,781	Rate (5.34%) \$409,146	(6.34%) \$521,233

E. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates effective for fiscal year ending 2020 are calculated as of June 30, 2018. Based on the June 30, 2018 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are below:

	<u>Non-Hazardous</u>
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level Percent of Pay, closed
Amortization Period:	25 Years, Closed
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30 to 11.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare Trend Rates: (Pre-65)	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over 12 year period
Healthcare Trend Rates: (Post-65)	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over 10 year period

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

F. Changes in Assumptions and Benefit Terms

There were no changes in benefit terms since the prior measurement date. The following changes of assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020 as follows:

The assumed discount rate changed from 5.68% to 5.34%

G. Changes Since Measurement Date

There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

H. Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

NOTE 10 - OTHER EMPLOYEE BENEFITS

Compensated Absences

All employees of the Water District earn and accrue vacation and sick time. Employees accumulate two weeks paid vacation after the first year of service, three weeks after five years of service and four weeks after twenty years of service. Employees accrue one sick day per month which may be carried over each year. Upon termination, accumulated sick days are converted to vacation days at the rate of four sick days equaling one vacation day. An employee leaving for retirement will be paid their accumulated vacation and sick days converted to vacation as noted above. An employee leaving for any other reason will be paid only their accumulated vacation days. This liability is recorded in the financial statements.

NOTE 11 - DEFERRED OUTFLOWS

Deferred outflows reported for the years ending December 31, 2021 and 2020, consisted of the following:

	2021	2020
Loss on defeasance of bonds	\$ 50,357	\$ 61,978
District's proportion related to net pension liability	417,573	402,710
	<u>\$ 467,930</u>	<u>\$ 464,688</u>

NOTE 12 - DATE OF MANAGEMENT REVIEW

Management of the District has evaluated subsequent events through March 29, 2022, which is the date the financial statements were available to be issued.

HENDERSON COUNTY WATER DISTRICT
Schedule of District's Proportionate
Share of Net Pension Liability
County Employee Retirement System
Year Ended December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.016948%	0.017494%	0.017103%	0.016842%	0.018005%	0.017380%	0.017380%
District's proportionate share of the pension liability (asset)	\$ 1,299,898	\$ 1,230,361	\$ 1,041,625	\$ 985,814	\$ 908,933	\$ 713,386	\$ 563,873
District's covered-employee payroll	\$ 419,562	\$ 422,012	\$ 445,326	\$ 444,384	\$ 400,712	\$ 425,653	\$ 424,452
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	309.82%	291.55%	233.90%	221.84%	226.83%	167.60%	132.85%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

HENDERSON COUNTY WATER DISTRICT
 Schedule of District's Contributions
 Kentucky Retirement System
 Year Ended December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 85,230	\$ 81,448	\$ 79,200	\$ 68,205	\$ 75,862	\$ 76,005	\$ 72,111
Contributions in relation to the contractually required contribution	<u>(85,230)</u>	<u>(81,448)</u>	<u>(79,200)</u>	<u>(68,205)</u>	<u>(75,862)</u>	<u>(76,005)</u>	<u>(72,111)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 419,562	\$ 422,012	\$ 445,326	\$ 444,384	\$ 400,712	\$ 425,653	\$ 424,452
Contributions as a percentage of covered-employee payroll	20.31%	19.30%	17.78%	15.35%	18.93%	17.86%	16.99%

HENDERSON COUNTY WATER DISTRICT
Schedule of District's Proportionate
Share of Net OPEB Liability - Non Hazardous
Medical Insurance Plan
Year Ended December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
District's proportion of the net pension liability	0.016944%	0.017490%	0.017103%	0.016842%
District's proportionate share of the pension liability (asset)	\$ 409,146	\$ 294,174	\$ 303,643	\$ 338,582
District's covered-employee payroll	\$ 419,562	\$ 422,012	\$ 445,326	\$ 444,384
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	97.52%	69.71%	68.18%	76.19%
Plan fiduciary net position as a percentage of the total pension liability	51.67%	60.44%	57.62%	52.39%

HENDERSON COUNTY WATER DISTRICT
Schedule of District's Contributions - Medical Insurance Plan
Kentucky Retirement System
Year Ended December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 24,690	\$ 20,088	\$ 22,293	\$ 22,138
Contributions in relation to the contractually required contribution	<u>(24,690)</u>	<u>(20,088)</u>	<u>(22,293)</u>	<u>(22,138)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 419,562	\$ 422,012	\$ 445,326	\$ 444,384
Contributions as a percentage of covered-employee payroll	5.88%	4.76%	5.01%	4.98%

HENDERSON COUNTY WATER DISTRICT
Schedule of Revenues, Expenses and Changes in Fund Net Position
Budget and Actual
Year Ended December 31, 2021

	Actual Amounts	Budgeted Amounts	Over/(Under) Budget
Operating revenues:			
Water	\$ 3,163,386	\$ 3,100,000	\$ 63,386
Penalties and sundry	97,693	90,000	7,693
Total operating revenues	<u>3,261,079</u>	<u>3,190,000</u>	<u>71,079</u>
Operating expenses:			
Purchased water	1,387,417	1,400,000	(12,583)
Pumping utilities	56,882	64,000	(7,118)
Maintenance of system	296,589	306,000	(9,411)
Vehicle and equipment	31,480	39,000	(7,520)
Customer accounts	140,924	174,000	(33,076)
Administration	706,168	693,700	12,468
Depreciation	398,042	413,483	(15,441)
Total operating expenses	<u>3,017,502</u>	<u>3,090,183</u>	<u>(72,681)</u>
Operating income	<u>243,577</u>	<u>99,817</u>	<u>143,760</u>
Non-operating revenues (expenses):			
Investment income	9,808	12,000	(2,192)
Interest expense	(154,436)	(124,144)	(30,292)
Gain (loss) on disposal of assets	4,149	-	4,149
Total non-operating revenues (expenses)	<u>(140,479)</u>	<u>(112,144)</u>	<u>(28,335)</u>
Income (loss) before contributions	103,098	(12,327)	115,425
Capital contributions	<u>29,500</u>	<u>-</u>	<u>29,500</u>
Change in net assets	132,598	(12,327)	144,925
Net position, beginning of year	<u>9,745,079</u>	<u>9,745,079</u>	<u>-</u>
Net position, end of year	<u>\$ 9,877,677</u>	<u>\$ 9,732,752</u>	<u>\$ 144,925</u>

HENDERSON COUNTY WATER DISTRICT
Schedule of System Maintenance, Customer Accounts
and Administrative Expenses
Years Ended December 31, 2021 and 2020

	2021	2020
<u>Maintenance of System:</u>		
Maintenance of mains	\$ 194,412	\$ 173,622
Materials & supplies - transmission	101,554	114,832
Materials & supplies - pumping	623	178
Maintenance of tanks	-	3,802
Rental - equipment	-	2,310
	<u>\$ 296,589</u>	<u>\$ 294,744</u>
<u>Customer accounts:</u>		
Salaries - meter reading	\$ 15,090	\$ 16,890
Billing and collections - labor and materials	113,910	101,578
Bad debts	11,455	4,078
Collection fees	469	280
	<u>\$ 140,924</u>	<u>\$ 122,826</u>
<u>Administration:</u>		
Salaries	\$ 114,801	\$ 121,575
Vacation and unassigned salaries	51,736	48,014
Commissioner's fees	8,400	7,350
Payroll taxes	31,978	32,269
Employee benefits	374,492	346,868
Office and computer expense	21,942	10,322
Telephone and utilities	11,824	12,835
Advertising	-	54
Professional fees	18,153	17,083
Insurance	38,908	32,704
Regulatory commission	6,636	6,545
Maintenance - office	16,418	12,525
Miscellaneous and general	10,880	7,526
	<u>\$ 706,168</u>	<u>\$ 655,670</u>

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

To the Board of Commissioners
Henderson County Water District
Henderson, 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 business-type activities of the Henderson County Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Henderson County Water District's basic financial statements and have issued our report thereon dated March 29, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Henderson County Water District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Henderson County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Henderson County Water District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items [2021-1] that we consider to be significant deficiencies.

Compliance and Other Matters

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

Henderson County Water District's Response to Findings

Henderson County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Henderson County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Henderson, Kentucky
March 29, 2022

HENDERSON COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2021

FINDINGS – FINANCIAL STATEMENT AUDIT

2021-1 Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust in employees is necessitated. Ideally, each key step of an accounting system should be segregated among employees. However, this is not always feasible due to the cost versus benefit relationship inherent in providing internal control. In the process of segregating functions among employees, management must continually make decisions relating to the applicable costs in comparison to the expected benefits to be achieved.

Deficiency: The Water District has a lack of segregation of duties involving key steps in the accounting system between employees.

Criteria: Internal controls should be in place that provides reasonable assurance that accounting transactions (billings, adjustments, cash receipts and disbursements) are properly recorded and authorized.

Effect: Because of a lack of segregation of duties involving key steps in the accounting system, transactions may occur that are not properly recorded, or authorized.

Recommendation: We recommend the segregation of duties between accounting employees to the extent possible based on limited personnel.

Management Response: Management is aware of the costs and benefits related to providing internal control, however, the risk of loss is mitigated via the purchase of insurance coverage to protect the Water District against loss. Management and those charged with governance will continue to provide strong oversight to the Water District's operations.