

**HENDERSON COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS**

Years Ended December 31, 2023 and 2022

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Years Ended December 31, 2023 and 2022

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**HENDERSON COUNTY WATER DISTRICT**  
Management's Discussion and Analysis  
Years Ended December 31, 2023 and 2022

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, 2023 and 2022.

**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 \$339,873 from \$15,232,133 in 2022 to \$14,892,260 in 2023, primarily due to decreases in cash, investments and capital assets (as a result of depreciation).

Operating revenues for 2023 decreased by \$31,128, from \$3,331,118 in 2022 to \$3,299,990 in 2023, primarily due to lower water revenue which is consistent with decreased consumption and lower rates from 2022. Decrease in revenue is consistent with decrease in accounts receivable from the prior year. This is partially due to greater unbilled water revenue at 2022 year end due to a winter freeze that caused frozen and broken pipes resulting in larger water consumption.

Overall, operating expenses increased by \$34,364, or 1%, from \$3,283,383 in 2022 to \$3,317,747 in 2023, primarily attributable to the increase of maintenance of mains in order to detect leaks, contracted third parties for leak detection, and rising payroll costs.

Operating income decreased by \$65,492, or (137%), from \$47,735 in 2022 to (\$17,757) in 2023, 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, 2023	December 31, 2022	Change	Percentage
Current assets	\$ 1,234,283	\$ 1,825,202	\$ (590,919)	-32%
Restricted assets	1,045,148	1,000,304	44,844	4%
Noncurrent assets	306,312	68,518	237,794	347%
Capital assets	11,836,501	11,972,970	(136,469)	-1%
Deferred outflows of resources	470,016	365,139	104,877	29%
Total assets and deferred outflows	<u>\$ 14,892,260</u>	<u>\$ 15,232,133</u>	<u>\$ (339,873)</u>	<u>-2.23%</u>
Current liabilities	\$ 649,728	\$ 779,501	\$ (129,773)	-17%
Long-term liabilities	4,014,347	4,169,872	(155,525)	-4%
Deferred inflows of resources	350,026	428,533	(78,507)	-18%
Total liabilities and deferred inflows	<u>5,014,101</u>	<u>5,377,906</u>	<u>(363,805)</u>	<u>-7%</u>
Net position				
Invested in capital assets	9,141,112	8,850,508	290,604	3%
Restricted - debt service	1,045,148	1,000,304	44,844	4%
Unrestricted	(308,101)	3,415	(311,516)	-9122%
Total net position	<u>9,878,159</u>	<u>9,854,227</u>	<u>23,932</u>	<u>0.24%</u>
Total liabilities and net position	<u>\$ 14,892,260</u>	<u>\$ 15,232,133</u>	<u>\$ (339,873)</u>	<u>-2.23%</u>

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>Change</u>	<u>Percentage</u>
Operating revenues	\$ 3,299,990	\$ 3,331,118	\$ (31,128)	-1%
Operating expenses	3,317,747	3,283,383	34,364	1%
Operating income (loss)	<u>(17,757)</u>	<u>47,735</u>	<u>(65,492)</u>	<u>-137%</u>
Non-operating revenues (expenses), net	(20,352)	(95,058)	74,706	79%
Capital contributions	<u>62,041</u>	<u>23,873</u>	<u>38,168</u>	<u>160%</u>
Change in net position	<u>\$ 23,932</u>	<u>\$ (23,450)</u>	<u>\$ 47,382</u>	<u>-202%</u>

Capital contributions are more than prior year because of a monies from Henderson County Fiscal Court for a line extension. Non-operating revenues (expenses), net decreased by \$74,706 from 2022 due to decrease in interest expense and increase in investment income. Total net position increased by \$47,382, largely due to the changes in capital contributions and non-operating revenues (expenses), net noted previously.

#### **Statement of Cash Flows:**

The following is a summary of cash flow activity for the fiscal years ended December 31, 2023 and 2022:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>Change</u>	<u>Percentage</u>
Net cash provided (used) by:				
Operating activities	\$ 211,194	\$ 367,526	\$ (156,332)	-43%
Non-capital financing	9,830	14,470	(4,640)	-32%
Capital and related financing	(686,940)	(528,768)	158,172	30%
Investing activities	<u>268,816</u>	<u>98,608</u>	<u>170,208</u>	<u>173%</u>
Net change in cash and cash equivalents	<u>\$ (197,100)</u>	<u>\$ (48,164)</u>	<u>\$ (148,936)</u>	<u>309%</u>

Cash flows from operating activities were less by \$156,332 due to the increase in operating expenses and decrease in operating revenues from the prior year. Cash used by capital and related financing activities increased by \$158,172 from the prior year higher principal and interest paid on bonds and other capital notes. Cash flows provided from investing activities increased by \$170,208 as the District had a CD that matured as was cashed out to use for operations.

#### **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 \$234,341 on capital assets during 2023, and \$98,874 during 2022.

#### **Long-term Debt:**

As of December 31, 2023, the Henderson County Water District has \$2,353,292 in long-term debt outstanding, consisting of an Old National Bank Loan in the amount of \$40,412, Revenue Bond Series 2013 and 2013A in the amount of \$1,736,000, and Revenue Bond Series 2016B in the amount of \$576,880. Revenues of the District are pledged to secure these obligations.

#### **Economic Factors:**

Due to the current rise of inflation, costs of goods and services are increasing resulting in an increase in the District's expenses and payroll. The District has found that vendors are having difficulty keeping current with demand so the District stock-piled some frequently used items which caused inventory and supplies to increase. However, even with these hardships, 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. Mark Julian, 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 governmental activities of the Henderson County Water District, as of and for the years ended December 31, 2023 and 2022, 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 governmental activities the Henderson County Water District, as of December 31, 2023 and 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 opinions.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 1-2, and the schedule of the District's proportionate share of net pension liability to the county employee retirement system on page 28, the schedule of the District's contributions to the Kentucky Retirement System on page 29, the schedule of the District's proportionate share of net OPEB liability to the non-hazardous medical insurance plan on page 30, and the schedule of the District's contributions to medical insurance plan of the Kentucky Retirement System on page 31 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 opinions 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2024, 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 27, 2024

**HENDERSON COUNTY WATER DISTRICT**

Statements of Net Position  
December 31, 2023 and 2022

	2023	2022
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 424,850	\$ 664,034
Investments	-	461,090
Receivables, net	518,017	527,689
Interest receivable	4,520	4,520
Inventories	254,629	139,790
Prepaid expenses	32,267	28,079
Total current assets	<u>1,234,283</u>	<u>1,825,202</u>
Utility, plant, equipment and construction in progress, net	<u>11,836,501</u>	<u>11,972,970</u>
Other non-current assets:		
Restricted cash and cash equivalents	665,578	623,494
Investments	236,959	-
Restricted investments	379,570	376,810
Other investments	69,353	68,518
Total other non-current assets	<u>1,351,460</u>	<u>1,068,822</u>
Total assets	<u>14,422,244</u>	<u>14,866,994</u>
Deferred outflows of resources	<u>470,016</u>	<u>365,139</u>
Total assets and deferred outflows	<u>14,892,260</u>	<u>15,232,133</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable	185,537	193,344
Interest payable	44,775	82,951
Other liabilities	77,319	83,368
Bonds and notes payable, net	342,097	419,838
Total current liabilities	<u>649,728</u>	<u>779,501</u>
Non-current liabilities:		
Customer security deposits	175,090	165,260
Net pension/OPEB liability	1,485,965	1,301,988
Bonds and notes payable, net	2,353,292	2,702,624
Total non-current liabilities	<u>4,014,347</u>	<u>4,169,872</u>
Total liabilities	<u>4,664,075</u>	<u>4,949,373</u>
Deferred inflows of resources	<u>350,026</u>	<u>428,533</u>
<b><u>NET POSITION</u></b>		
Invested in capital assets, net of related debt	9,141,112	8,850,508
Restricted for debt service	1,045,148	1,000,304
Unrestricted	(308,101)	3,415
Total net position	<u>\$ 9,878,159</u>	<u>\$ 9,854,227</u>



**HENDERSON COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses and Changes in Fund Net Position**  
**December 31, 2023 and 2022**

	2023	2022
Operating revenues:		
Water	\$ 3,185,227	\$ 3,224,823
Penalties and sundry	114,763	106,295
Total operating revenues	<u>3,299,990</u>	<u>3,331,118</u>
Operating expenses:		
Purchased water	1,629,511	1,750,623
Pumping utilities	67,263	64,599
Maintenance of system	412,055	323,411
Vehicle and equipment	39,005	50,297
Customer accounts	155,918	135,523
Administration	612,630	562,484
Depreciation	401,365	396,446
Total operating expenses	<u>3,317,747</u>	<u>3,283,383</u>
Operating income	<u>(17,757)</u>	<u>47,735</u>
Non-operating revenues (expenses):		
Investment income	48,280	13,026
Interest expense	(71,610)	(108,084)
Gain (loss) on disposal of assets	2,978	-
Total non-operating revenues (expenses)	<u>(20,352)</u>	<u>(95,058)</u>
Income (loss) before contributions	(38,109)	(47,323)
Capital contributions	<u>62,041</u>	<u>23,873</u>
Change in net position	23,932	(23,450)
Net position, beginning of year, as previously stated	<u>9,854,227</u>	<u>9,877,677</u>
Net position, end of year	<u>\$ 9,878,159</u>	<u>\$ 9,854,227</u>

**HENDERSON COUNTY WATER DISTRICT**

Statements of Cash Flows  
December 31, 2023 and 2022

	2023	2022
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 3,194,899	\$ 3,175,081
Cash payments to suppliers for goods and services	(2,226,946)	(2,171,335)
Cash payments to employees for services	(871,522)	(742,515)
Other operating revenues	114,763	106,295
Net cash provided by operating activities	<u>211,194</u>	<u>367,526</u>
<b>Cash flows from noncapital financing activities:</b>		
Increase (decrease) in customer deposits	9,830	14,470
Net cash provided by noncapital financing activities	<u>9,830</u>	<u>14,470</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(234,341)	(98,874)
Proceeds from sale of assets	2,978	-
Capital contributions	62,041	23,873
Principal paid on revenue bond maturities and other capital notes	(419,838)	(381,613)
Interest paid on revenue bonds and other capital notes	(97,780)	(72,154)
Net cash (used) by capital and related financing activities	<u>(686,940)</u>	<u>(528,768)</u>
<b>Cash flows from investing activities:</b>		
(Increase) decrease in investment securities	220,536	85,582
Interest income	48,280	13,026
Net cash provided by investing activities	<u>268,816</u>	<u>98,608</u>
Net increase (decrease) in cash and cash equivalents	(197,100)	(48,164)
Cash and cash equivalents, beginning of year	1,287,528	1,335,692
Cash and cash equivalents, end of year	<u>\$ 1,090,428</u>	<u>\$ 1,287,528</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income	\$ (17,757)	\$ 47,735
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	401,365	396,446
Pension expense	115,317	100,887
(Increase) decrease in accounts receivable	9,672	(49,742)
(Increase) decrease in inventories	(114,838)	(54,555)
(Increase) decrease in prepaid expenses	(4,188)	4,871
(Increase) decrease in deferred outflows	(126,345)	(121,982)
Increase (decrease) in accounts payable	(7,807)	42,499
Increase (decrease) in accrued liabilities	(44,225)	1,367
Net cash provided by operating activities	<u>\$ 211,194</u>	<u>\$ 367,526</u>
<b>Summary of cash and cash equivalents:</b>		
Unrestricted cash equivalents	\$ 424,850	\$ 664,034
Restricted cash equivalents	665,578	623,494
Total cash and cash equivalents	<u>\$ 1,090,428</u>	<u>\$ 1,287,528</u>

## HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2023 and 2022

### 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 years ended December 31, 2023 and 2022.

#### 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, 2023 and 2022

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### 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 net realizable value.

#### 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. Accounts Receivable

On January 1, 2023, the District adopted the new accounting guidance related to the allowance for credit losses on accounts receivable. The impact of adoption of this standard was not material to the financial statements and had no impact on the opening balance of retained earnings.

The District extends credit on a short-term basis to customers in the normal course of business. Accounts receivable are stated at their estimated collectible amounts and comprise amounts billed and currently due from customers. These uncollateralized customer obligations are due under normal trade terms requiring payment within thirty days from the invoice date.

The carrying amounts of accounts receivable are reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Collections from customers are continuously monitored and an allowance for credit losses is maintained based on historical experience adjusted for current conditions and reasonable forecasts taking into account geographical and industry-specific economic factors. The District also considers any specific customer collection issues. Since the District's accounts receivable are largely similar, the District evaluates its allowance for credit losses as one portfolio segment. At origination, the District evaluates credit risk based on a variety of credit quality factors including prior payment experience,

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

customer financial information, credit ratings, probabilities of default, industry trends and other internal metrics. On a continuing basis, data for each major customer is regularly reviewed based on past-due status to evaluate the adequacy of the allowance for credit losses; actual write-offs are charged against the allowance. Write-offs to the allowance for credit losses were \$4,547 and \$3,101, respectively for years 2023 and 2022.

The balance of accounts receivable as of January 1, 2022 was \$477,947.

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 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, 2023 and 2022 was \$6,462 and \$11,347, 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:

## HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements  
December 31, 2023 and 2022

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 CREDIT LOSSES

The allowance for uncollectible accounts receivable at December 31, 2023 and 2022 was \$7,040 and \$0, respectively.

### 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, 2023, the carrying amount of the Water District's deposits, including certificates of deposit, was \$1,781,817. Of the total bank balances (including certificates of deposit), \$250,000 was covered by Federal Depository Insurance. As of December 31, 2023, 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.

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2023 and 2022

**NOTE 4 - INVESTMENTS**

Investments stated at fair market value consisted of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Current:		
Certificates of deposit	\$ -	\$ 461,090
Noncurrent:		
Certificates of deposit, restricted	379,570	376,810
Certificates of deposit, unrestricted	236,959	-
Money market, unrestricted	69,353	68,518
	<u>\$ 685,882</u>	<u>\$ 906,418</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.

**NOTE 6 - CAPITAL ASSETS**

The following is a summary of changes in capital assets for the years ended December 31, 2023 and 2022:

	<u>December 31, 2023</u>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 300,516	\$ -	\$ -	\$ 300,516
Construction in progress	199,265	-	-	199,265
Capital assets, being depreciated:				
Distribution systems	18,865,954	178,829	-	19,044,783
Buildings	1,062,915	-	-	1,062,915
Equipment	804,052	86,067	118,725	771,394
Total capital assets	<u>21,232,702</u>	<u>264,896</u>	<u>118,725</u>	<u>21,378,873</u>
Less: accumulated depreciation				
Distribution systems	7,864,283	323,559	-	8,187,842
Buildings	688,017	39,887	-	727,904
Equipment	707,432	37,919	118,725	626,626
Total accumulated depreciation	<u>9,259,732</u>	<u>401,365</u>	<u>118,725</u>	<u>9,542,372</u>
Capital assets, net	<u>\$11,972,970</u>	<u>\$ (136,469)</u>	<u>\$ -</u>	<u>\$11,836,501</u>

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

**NOTE 6 - CAPITAL ASSETS, CONTINUED**

	December 31, 2022			Ending Balance
	Beginning Balance	Increases	Decreases	
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 300,516	\$ -	\$ -	\$ 300,516
Construction in progress	187,303	11,962	-	199,265
Capital assets, being depreciated:				
Distribution systems	18,922,296	83,031	139,373	18,865,954
Buildings	1,059,035	3,880	-	1,062,915
Equipment	809,809	-	5,757	804,052
Total capital assets	21,278,959	98,873	145,130	21,232,702
Less: accumulated depreciation				
Distribution systems	7,681,591	322,065	139,373	7,864,283
Buildings	648,243	39,774	-	688,017
Equipment	678,582	34,607	5,757	707,432
Total accumulated depreciation	9,008,416	396,446	145,130	9,259,732
Capital assets, net	\$12,270,543	\$ (297,573)	\$ -	\$11,972,970

**NOTE 7 - LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the years ended December 31, 2023 and 2022:

	December 31, 2023			Ending Balance
	Beginning Balance	Additions	Payments	
Revenue bond series 2013	\$ 1,531,500	\$ -	\$ 27,000	\$ 1,504,500
Revenue bond series 2013 A	269,500	-	5,000	264,500
Revenue bond series 2016 B	1,180,000	-	350,000	830,000
Old National Bank note	117,347	-	37,838	79,509
	3,098,347	-	419,838	2,678,509
Add: unamortized premiums	24,115	-	7,235	16,880
Bonds/notes payable @ 12/31/23	\$ 3,122,462	-	\$ 427,073	\$ 2,695,389



**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

**NOTE 7 - LONG-TERM DEBT, CONTINUED**

	December 31, 2022			
	Beginning Balance	Additions	Payments	Ending Balance
Revenue bond series 2013	\$ 1,531,500	\$ -	\$ -	\$ 1,531,500
Revenue bond series 2013 A	269,500	-	-	269,500
Revenue bond series 2016 B	1,525,000	-	345,000	1,180,000
Old National Bank note	153,960	-	36,613	117,347
	<u>3,479,960</u>	-	<u>381,613</u>	<u>3,098,347</u>
Add: unamortized premiums	31,350	-	7,235	24,115
Bonds/notes payable @ 12/31/22	<u>\$ 3,511,310</u>	-	<u>\$ 388,848</u>	<u>\$ 3,122,462</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.

Bonds and notes payable at December 31, 2023 and 2022 are comprised of the following:

	<u>2023</u>	<u>2022</u>
<b><u>Notes Payable:</u></b>		
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	\$ 79,509	\$ 117,347
<b><u>Revenue Bonds:</u></b>		
\$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%	830,000	1,180,000
Add: Unamortized bond premium	16,880	24,115
\$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%	1,504,500	1,531,500
\$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%	264,500	269,500
Total bonds and notes payable	<u>2,695,389</u>	<u>3,122,462</u>
Less: current portion	<u>342,097</u>	<u>419,838</u>
Long-term portion	<u>\$ 2,353,292</u>	<u>\$ 2,702,624</u>

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2023 and 2022

**NOTE 7 - LONG-TERM DEBT, CONTINUED**

The annual requirements to amortize all bonds/notes outstanding as of December 31, 2023, including interest payments are as follows:

<u>Year ending December 31</u>	<u>Revenue Bonds/Notes</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 342,097	\$ 87,727	\$ 429,824
2025	349,913	77,627	427,540
2026	322,000	66,485	388,485
2027	38,500	60,480	98,980
2028	39,500	59,052	98,552
2029-2033	222,500	272,024	494,524
2034-2038	266,500	227,559	494,059
2039-2043	321,000	174,216	495,216
2044-2048	384,000	110,138	494,138
2049 and thereafter	392,499	49,857	442,356
	<u>\$ 2,678,509</u>	<u>\$ 1,185,165</u>	<u>\$ 3,863,674</u>

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](http://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. 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.

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

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**NOTE 8 - PENSION PLAN, CONTINUED**

**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

The District's actuarially determined contribution rate for the year ended December 31, 2023, was 26.79% (for the months of January through June) and 23.34% (for the months of July through December) of annual creditable compensation. Of these determined contribution rates, 23.40% and 3.39%, which makes up the 26.79% (for the months of January through June) and 23.34% and 0.00%, which makes up the 23.34% (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 \$117,845 and \$8,500, respectively, for the year ended December 31, 2023.

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

At December 31, 2023, the District reported a liability of \$1,167,341 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 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, 2022, the District's proportion was 0.016148% for non-hazardous which was an increase of 0.000442% from its proportion measured as of June 30, 2021. For the year ended December 31, 2023 the District recognized pension expense of \$71,286. At December 31, 2023 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

**NOTE 8 - PENSION PLAN, CONTINUED**

	<u>2023</u>	
	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows of</u>	<u>Inflows of</u>
	<u>Resources</u>	<u>Resources</u>
Difference between expected and actual experience	\$ 1,248	\$ 10,396
Changes in assumptions	-	-
Net difference between projected and actual investment earnings on pension plan investments	15,884	128,914
Changes in proportion and differences between District contributions and proportionate share of contributions	23,088	30,498
District's contributions subsequent to the measurement date (fiscal year District contributions)	<u>117,845</u>	<u>-</u>
Total	<u>\$ 158,065</u>	<u>\$ 169,808</u>

\$117,845 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:		
2023	\$	(18,837)
2024		8,854
2025		(9,810)
2026		33,161
Thereafter	\$	<u>13,368</u>

**E. Actuarial Assumptions**

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

Inflation	2.30%
Payroll growth rate	2.00% for CERS Non-hazardous
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25% net of Plan investment expense, including inflation

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2023 and 2022

**NOTE 8 - PENSION PLAN, CONTINUED**

The mortality table used for active members was Pub-2010 General Mortality table, for the Nonhazardous Plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for non-disabled 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. There have been no actuarial or method changes since June 30, 2021. Additionally, there have been no plan provision changes that would materially impact the total pension liability since June 30, 2012.

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

Projected cash flows: The projection of cash flows used to determine the discount rate assumed 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.

Long term rate of return: The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Public Equity	50.00%	4.48%
Private Equity	10.00%	10.15%
Core Bonds	10.00%	28.00%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	<u>100.00%</u>	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		<u>6.58%</u>

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

NOTE 8 - PENSION PLAN, CONTINUED

**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	\$1,459,032	\$1,167,341	\$926,089

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

The actuarially determined contribution rates are determined by and actuarial valuation as of June 30, 2020. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

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	30-year closed period at June 30, 2019. Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll growth rate	2.00%
Investment rate of return	6.25%
Inflation	2.30%
Salary increase	3.30% to 10.30%, varies by service
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Phase-in provision	Board certified rate is phased in to the actuarially determined rate in accordance with HB 362 enacted in 2018

G. Changes in Assumptions and Benefit Terms

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

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

NOTE 8 - PENSION PLAN, CONTINUED

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.

J. Payables to the Pension Plan

At December 31, 2023 and 2022, the District reported a legally required payable of \$16,355 and \$17,757, respectively, for the outstanding amount of contributions due to CERS Pension Fund for the years.

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 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.

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

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

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, 2023, was 26.79% (for the months of January through June) and 23.34% (for the months of July through December) of annual creditable compensation. Of these determined contribution rates, 23.40% and 3.39%, which makes up the 26.79% (for the months of January through June) and 23.34% and 0.00%, which makes up the 23.34% (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 \$117,845 and \$8,500, respectively, for the year ended December 31, 2023.

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

At December 31, 2023, the District reported a liability of \$318,624 for its proportionate share of the net OPEB liability. The net OPEB 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 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, 2022, the District's proportion was 0.0161452% for non-hazardous which was a decrease of 0.000443% from its proportion measured as of June 30, 2021. For the year ended December 31, 2023 the District recognized OPEB expense of \$44,031. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



**HENDERSON COUNTY WATER DISTRICT**  
Notes to Financial Statements  
December 31, 2023 and 2022

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

	2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 32,072	\$ 73,068
Changes in assumptions	50,393	41,523
Net difference between projected and actual investment earnings on pension plan investments	59,331	46,399
Changes in proportion and differences between District contributions and proportionate share of contributions	8,555	19,228
District's contributions subsequent to the measurement date (Current fiscal year District contributions)	8,500	-
<b>Total</b>	<b>\$ 158,851</b>	<b>\$ 180,218</b>

\$8,500 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	
2023	\$ (4,881)
2024	(5,888)
2025	(21,895)
2026	2,796
	<b>\$ (29,868)</b>

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2023 and 2022

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

**D. Actuarial Assumptions**

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:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, 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, 2021, valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018.

Discount rate: The discount rate used to measure the total OPEB liability was 5.70%.

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 expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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.

Municipal bond rate: The discount rate determination was 3.69%.

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

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2023 and 2022

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

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:

<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 Bonds	10.00%	0.28%
Specialty Credit/High Yield	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 following presents the net OPEB liability of CERS, calculated using the discount rate of 5.70%, as well as what CERS net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.70%) or one percentage point higher (6.70%) than the current rate for non-hazardous.

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

	<u>Non-Hazardous</u>		
	<u>1% Decrease (4.70%)</u>	<u>Current Discount Rate (5.70%)</u>	<u>1% Increase (6.70%)</u>
District's proportionate share of Net Pension Liability	\$425,949	\$318,264	\$229,901

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**

	<u>Non-Hazardous</u>		
	<u>1% Decrease (4.70%)</u>	<u>Current Discount Rate (5.70%)</u>	<u>1% Increase (6.70%)</u>
District's proportionate share of Net Pension Liability	\$236,890	\$318,264	\$416,771

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

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

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

The actuarially determined contribution rates effective for fiscal year ending 2022 are calculated as of June 30, 2020. Based on the June 30, 2020 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are below:

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
Remaining amortization period	30-year closed period at June 30, 2019. Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.30% to 10.30%, varies by service
Investment rate of return	6.25%
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvements scale using a base year of 2019.
Health Care Trend Rates (Pre-65)	Initial trend starting at 6.40% and gradually decreasing to an ultimate trend rate of 4.05% over 14 year period.
Health Care Trend Rates (Post-65)	Initial trend starting at 6.30% and gradually decreasing to an ultimate trend rate of 4.05% over 13 year period.

**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, 2022 as follows:

The assumed discount rate changed from 5.20% to 5.70%

**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.

**I. Payables to the Pension Plan**

At December 31, 2023 and 2022, the District reported a legally required payable of \$16,355 and \$17,757, respectively, for the outstanding amount of contributions due to CERS Pension Fund for the years.

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements  
December 31, 2023 and 2022

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**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, 2023 and 2022, consisted of the following:

	<u>2023</u>	<u>2022</u>
Loss on defeasance of bonds	\$ 27,116	\$ 38,737
District's proportion related to net pension liability	442,900	417,573
	<u>\$ 470,016</u>	<u>\$ 365,139</u>

**NOTE 12 - DATE OF MANAGEMENT REVIEW**

Management of the District has evaluated subsequent events through March 27, 2024, 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, 2023

	<u>2023</u>	<u>2022</u>	<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	0.016148%	0.015706%	0.016948%	0.017494%	0.017103%	0.016842%	0.018005%	0.017380%	0.017380%
District's proportionate share of the pension liability (asset)	\$ 1,167,341	\$ 1,001,381	\$ 1,299,898	\$ 1,230,361	\$ 1,041,625	\$ 985,814	\$ 908,933	\$ 713,386	\$ 563,873
District's covered-employee payroll	\$ 504,261	\$ 444,688	\$ 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	231.50%	225.19%	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	52.42%	57.33%	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, 2023

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	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 117,845	\$ 99,173	\$ 85,230	\$ 81,448	\$ 79,200	\$ 68,205	\$ 75,862	\$ 76,005	\$ 72,111
Contributions in relation to the contractually required contribution	<u>(117,845)</u>	<u>(99,173)</u>	<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>	\$ <u>-</u>	\$ <u>-</u>
District's covered-employee payroll	\$ 504,261	\$ 444,688	\$ 419,562	\$ 422,012	\$ 445,326	\$ 444,384	\$ 400,712	\$ 425,653	\$ 424,452
Contributions as a percentage of covered-employee payroll	23.37%	22.30%	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, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
District's proportion of the net pension liability	0.016145%	0.015702%	0.016944%	0.017490%	0.017103%	0.016842%
District's proportionate share of the pension liability (asset)	\$ 318,624	\$ 300,607	\$ 409,146	\$ 294,174	\$ 303,643	\$ 338,582
District's covered-employee payroll	\$ 504,261	\$ 444,688	\$ 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	63.19%	67.60%	97.52%	69.71%	68.18%	76.19%
Plan fiduciary net position as a percentage of the total pension liability	69.41%	62.91%	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, 2023

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	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 8,500	\$ 22,809	\$ 24,690	\$ 20,088	\$ 22,293	\$ 22,138
Contributions in relation to the contractually required contribution	<u>(8,500)</u>	<u>(22,809)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 504,261	\$ 444,688	\$ 419,562	\$ 422,012	\$ 445,326	\$ 444,384
Contributions as a percentage of covered-employee payroll	1.69%	5.13%	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, 2023

	Actual Amounts	Budgeted Amounts	Over/(Under) Budget
Operating revenues:			
Water	\$ 3,185,227	\$ 3,500,000	\$ (314,773)
Penalties and sundry	114,763	114,000	763
Total operating revenues	<u>3,299,990</u>	<u>3,614,000</u>	<u>(314,010)</u>
Operating expenses:			
Purchased water	1,629,511	1,700,000	(70,489)
Pumping utilities	67,263	69,000	(1,737)
Maintenance of system	412,055	387,600	24,455
Vehicle and equipment	39,005	49,000	(9,995)
Customer accounts	155,918	157,000	(1,082)
Administration	612,630	688,100	(75,470)
Depreciation	401,365	413,483	(12,118)
Total operating expenses	<u>3,317,747</u>	<u>3,464,183</u>	<u>(146,436)</u>
Operating income	<u>(17,757)</u>	<u>149,817</u>	<u>(167,574)</u>
Non-operating revenues (expenses):			
Investment income	48,280	16,000	32,280
Interest expense	(71,610)	(103,817)	32,207
Gain (loss) on disposal of assets	2,978	-	2,978
Total non-operating revenues (expenses)	<u>(20,352)</u>	<u>(87,817)</u>	<u>67,465</u>
Income (loss) before contributions	(38,109)	62,000	(100,109)
Capital contributions	<u>62,041</u>	<u>-</u>	<u>62,041</u>
Change in net assets	23,932	62,000	(38,068)
Net position, beginning of year	<u>9,854,227</u>	<u>9,854,227</u>	<u>-</u>
Net position, end of year	<u>\$ 9,878,159</u>	<u>\$ 9,916,227</u>	<u>\$ (38,068)</u>

**HENDERSON COUNTY WATER DISTRICT**  
Schedule of System Maintenance, Customer Accounts  
and Administrative Expenses  
Years Ended December 31, 2023 and 2022

	2023	2022
<u>Maintenance of System:</u>		
Maintenance of mains	\$ 272,929	\$ 224,588
Materials & supplies - transmission	125,478	96,508
Materials & supplies - pumping	1,980	2,120
Maintenance of tanks	9,110	-
Rental - equipment	2,558	195
	<u>\$ 412,055</u>	<u>\$ 323,411</u>
<u>Customer accounts:</u>		
Salaries - meter reading	\$ 30,904	\$ 20,780
Billing and collections - labor and materials	121,038	111,612
Bad debts	4,547	3,101
Collection fees	(571)	30
	<u>\$ 155,918</u>	<u>\$ 135,523</u>
<u>Administration:</u>		
Salaries	\$ 117,547	\$ 118,728
Vacation and unassigned salaries	64,070	59,398
Commissioner's fees	15,600	8,700
Payroll taxes	40,052	34,462
Employee benefits	223,371	206,861
Office and computer expense	12,591	20,588
Telephone and utilities	14,084	12,838
Professional fees	39,039	19,642
Insurance	41,338	43,058
Regulatory commission	5,977	5,340
Maintenance - office	19,836	18,432
Miscellaneous and general	18,711	14,437
	<u>\$ 612,630</u>	<u>\$ 562,484</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 Henderson County Water District, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Henderson County Water District's basic financial statements and have issued our report thereon dated March 27, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 Henderson County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items [2023-1] that we consider to be significant deficiencies.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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**

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

### **Purpose of This Report**

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

*Kemper CPA Group LLP*

Kemper CPA Group LLP  
Certified Public Accountants and Consultants

Henderson, Kentucky  
March 27, 2024

**HENDERSON COUNTY WATER DISTRICT**  
Schedule of Findings and Responses  
Year Ended December 31, 2023

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**FINDINGS – FINANCIAL STATEMENT AUDIT**

2023-1 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.