

HENRY COUNTY WATER DISTRICT #2

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

At December 31, 2022 and 2021

**HENRY COUNTY WATER DISTRICT #2
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2022 and 2021

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RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008
502-732-6655 • taxes@rzwcpas.com

Dennis S. Raisor, CPA
Jerilyn P. Zapp, CPA
Jeffery C. Woods, CPA
Susan A. Dukes, CPA

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Henry County Water District #2
Campbellsburg, Kentucky 40011

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Henry County Water District #2 as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Henry County Water District #2's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Henry County Water District #2, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in 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 Henry County Water District #2 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 Henry County Water District #2's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

**Commissioners of the
Henry County Water District #2
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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 Henry County Water District #2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Henry County Water District #2's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the Table of Contents on pages 27 through 33 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2023, on our consideration of the Henry County Water District #2'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 Henry County Water District #2'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 Henry County Water District #2's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

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

September 12, 2023

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF NET POSITION
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 186,092	\$ 280,268
Accounts Receivable (Net)	462,792	420,669
Other Receivables	12,540	1,620
Inventory	132,657	152,385
Prepaid Expense	43,360	38,522
Total Current Assets	<u>\$ 837,441</u>	<u>\$ 893,464</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,044,147	\$ 1,314,591
Accrued Interest Receivable	-	915
Capital Assets (Net)	15,407,627	16,031,382
Total Noncurrent Assets	<u>\$ 16,451,774</u>	<u>\$ 17,346,888</u>
Total Assets	<u>\$ 17,289,215</u>	<u>\$ 18,240,352</u>
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 489,610	\$ 342,952
Attributable to Employee OPEB Plan	338,230	381,006
Deferred Loss - Early Debt Retirement	109,661	126,750
Total Deferred Outflows of Resources	<u>\$ 937,501</u>	<u>\$ 850,708</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 111,584	\$ 79,416
Accounts Payable - Construction and Capital Assets	13,128	132,577
Accrued Compensated Absences	34,351	32,071
Accrued Salaries, Wages & Benefits	57,386	40,399
Accrued Payroll Taxes/Employee Withholding	22,652	22,710
Utility Tax Payable	8,699	8,587
Sales Tax Payable	617	542
Short-Term Loan Payable	-	11,524
Current Liabilities Payable from Restricted Assets:		
Accrued Interest - Notes Payable	4,491	4,783
Revenue Bonds Payable	518,000	496,000
Notes Payable	206,829	134,346
Total Current Liabilities	<u>\$ 977,737</u>	<u>\$ 962,955</u>
Noncurrent Liabilities:		
Revenue Bonds Payable (Net of Unamortized Bond Discount & Premium of \$2,068 for 2022 and \$2,452 for 2021)	\$ 2,562,068	\$ 3,080,452
Notes Payable	2,915,326	3,191,065
Net Pension Liability	2,477,961	2,280,937
Net OPEB Liability	676,363	684,741
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	119,787	130,770
Total Noncurrent Liabilities	<u>\$ 8,751,505</u>	<u>\$ 9,367,965</u>
Total Liabilities	<u>\$ 9,729,242</u>	<u>\$ 10,330,920</u>
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 360,443	\$ 414,634
Attributable to Employee OPEB Plan	371,718	354,623
Total Deferred Inflows of Resources	<u>\$ 732,161</u>	<u>\$ 769,257</u>
NET POSITION		
Net Investment in Capital Assets	\$ 9,301,937	\$ 9,123,692
Restricted for Capital Projects	645	90,151
Restricted for Debt Service	917,123	1,077,627
Unrestricted (deficit)	(2,454,392)	(2,300,587)
Total Net Position	<u>\$ 7,765,313</u>	<u>\$ 7,990,883</u>

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2022 and 2021

Operating Revenues:	2022	2021
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 3,256,429	\$ 3,245,054
Wholesale Water Charges	276,518	262,804
Total Charges for Services	<u>\$ 3,532,947</u>	<u>\$ 3,507,858</u>
Other Charges and Miscellaneous:		
Reconnect and Disconnect Charges	\$ 22,190	\$ 25,620
Forfeited Discounts	78,842	75,003
Miscellaneous	41,917	52,920
Total Other Charges and Miscellaneous	<u>\$ 142,949</u>	<u>\$ 153,543</u>
Total Operating Revenues	<u>\$ 3,675,896</u>	<u>\$ 3,661,401</u>
Operating Expenses:		
Accounting and Collecting Labor	\$ 165,599	\$ 153,170
Chemicals	70,415	30,965
Commissioner Salaries	30,600	30,000
Continuing Education	6,288	3,417
Contractual Services-Maintenance of Mains/Distribution System	37,871	39,720
Dues	6,921	6,232
Insurance	65,377	59,507
Maintenance of Mains/Distribution System Expenses	378,972	310,237
Miscellaneous	7,556	3,657
Office Supplies and Expense	135,685	113,352
Operating Labor	816,049	798,026
Other Interest Expense	38	101
Payroll Taxes	80,779	78,927
Professional Services	53,258	57,390
Purchased Power	568,154	432,515
Regulatory Fees	5,447	7,117
Employee Benefits	130,351	128,345
Employee OPEB Expense	79,275	73,161
Retirement Expense	220,649	276,637
Transportation Expense	27,191	12,349
Utilities	40,589	40,893
Depreciation Expense	825,078	822,176
Total Operating Expenses	<u>\$ 3,752,142</u>	<u>\$ 3,477,894</u>
Net Operating Income	<u>\$ (76,246)</u>	<u>\$ 183,507</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 16,902	\$ 16,010
Interest Expense	(219,749)	(244,177)
Gain (Loss) on Sale/Abandonment of Fixed Assets	(4,137)	-
Total Nonoperating Revenue (Expense)	<u>\$ (206,984)</u>	<u>\$ (228,167)</u>
Income (Loss) Before Contributions	<u>\$ (283,230)</u>	<u>\$ (44,660)</u>
Capital Contributions	57,660	66,440
Change in Net Position	<u>\$ (225,570)</u>	<u>\$ 21,780</u>
Net Position - Beginning of Year	<u>\$ 7,990,883</u>	<u>\$ 7,969,103</u>
Net Position - End of Year	<u>\$ 7,765,313</u>	<u>\$ 7,990,883</u>

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 3,611,870	\$ 3,680,424
Payments to Suppliers	(1,820,052)	(1,626,798)
Payments to Employees	(992,981)	(973,585)
Other Receipts (Payments)	91	2,503
Net Cash Provided (Used) by Operating Activities	<u>\$ 798,928</u>	<u>\$ 1,082,544</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Operating Debt	\$ -	\$ 150,000
Principal Paid on Operating Debt	(11,524)	(138,476)
Interest Paid on Operating Debt	(25)	(1,956)
Net Cash Provided (Used) by Noncapital Financing activities	<u>\$ (11,549)</u>	<u>\$ 9,568</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets (Including Work In Process)	\$ (324,909)	\$ (460,562)
Principal Paid on Capital Debt	(699,256)	(679,747)
Interest Paid on Capital Debt	(203,311)	(225,802)
Capital Contributions	57,660	91,887
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,169,816)</u>	<u>\$ (1,274,224)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Certificates of Deposits Redeemed During Year	\$ 50,000	\$ 100,000
Interest Received	15,626	15,747
Net Cash Provided (Used) by Investing Activities	<u>\$ 65,626</u>	<u>\$ 115,747</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (316,811)	\$ (66,365)
Balances-Beginning of the Year	812,661	879,026
Balances-End of the Year	<u>\$ 495,850</u>	<u>\$ 812,661</u>

	Balances Per December 31, 2022 Statement of Net Position	Balances Per December 31, 2022 Statement of Cash Flows
Cash	\$ 86,518	\$ 86,518
Certificates of Deposit	100,074	-
Restricted Cash	409,332	409,332
Restricted Certificates of Deposit	634,315	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,230,239</u>	<u>\$ 495,850</u>
	Balances Per December 31, 2021 Statement of Net Position	Balances Per December 31, 2021 Statement of Cash Flows
Cash	\$ 180,268	\$ 180,268
Certificates of Deposit	100,000	-
Restricted Cash	632,393	632,393
Restricted Certificates of Deposit	682,198	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,594,859</u>	<u>\$ 812,661</u>

See accompanying notes to the basic financial statements.

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (76,246)	\$ 183,507
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	825,078	822,176
Pension & OPEB Expense	47,668	104,898
Change in Assets and Liabilities:		
Receivables, Net	(53,043)	10,826
Inventories	19,728	(43,081)
Prepaid Expenses	(4,838)	(1,850)
Accounts Payable	32,168	(12,344)
Accrued Expenses	19,396	10,215
Customer Meter Deposits Payable	(10,983)	8,197
Net Cash Provided by Operating Activities	<u>\$ 798,928</u>	<u>\$ 1,082,544</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2022 and 2021, Henry County Water District #2 had \$13,128 and \$132,577, respectively, of capitalized construction expenditures in accounts payable on the Statement of Net Position.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of entity: Henry County Water District #2 is a rural water company serving approximately 6,300 customers in the Kentucky counties of Henry, Trimble, Carroll, Oldham and Shelby, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of Henry County through its Fiscal Court and began operations in 1965.

In evaluating how to define Henry County Water District #2 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

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

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

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

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (total assets plus deferred outflows net of total liabilities and deferred inflows) is segregated into net investment in capital assets, restricted; and unrestricted components.

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

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

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

- Structures & Improvements	7-60 years
- Distribution System	7-50 years
- Machinery & Equipment	3-25 years

Construction in process represents costs related to various water line extensions being installed by District employees, as well as system improvements. Expenses for maintenance and repairs that do not increase the useful life of the asset are charged to operations as they are incurred.

Inventory: Inventories of supplies are valued at the lower of cost or market on a first-in, first-out basis.

Bond Discount and Premium: Bond discount and premium are amortized over the life of the bond issue.

Debt Issuance Costs: Such costs are expensed as incurred.

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

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

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

Compensated Absences: See Note 12 for the District's policy on vacation and sick pay.

Income Taxes: Henry County Water District #2 is not subject to income taxes.

Contributed Capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues, in the statement of revenues, expenses, and changes in fund net position. Capital contributions include donated property, impact fees, tap on fees and grants. Tap on fees and impact fees of \$57,660 and \$66,440 were received by the District for the years ended December 31, 2022 and 2021, respectively.

Net Position: Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

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

Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

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

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Henry County Water District #2 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was established with the original bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the outstanding bond issues is as follows:

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

The transfers and/or segregated deposits were sufficient to meet the total obligation outstanding on all issues at December 31, 2022 and 2021. During the calendar year 2022 and 2021 sinking fund transfers were not made consistently.

Upon the issuance of the original bonds, a Depreciation Account was established to provide funds for extraordinary repairs and extensions to the system and/or make up any deficiency in the Bond and Interest Sinking Account. After monthly deposits are made into the Bond and Interest Account, monthly transfers are required to be made to the Depreciation Account. The 1996 Bond Resolution (which was refinanced with the 2003 Bond Issue) required a monthly transfer of \$3,845 to accumulate to a balance of \$461,400. The 2001, 2003, 2010 and 2013 Bond Resolutions ratify and confirm the creation of the 1996 Depreciation Fund. The Kentucky Infrastructure Authority Notes F13-039 and F15-014 require the establishment of a replacement reserve account. The KIA note F13-039 requires an annual transfer of \$7,100 to accumulate to a balance of \$71,000. The KIA note F15-014 requires an annual transfer of \$7,000, to accumulate to a balance of \$70,000. At December 31, 2021, the Depreciation Account was adequately funded. During 2022, no depreciation accounts were funded.

NOTE 3 – CASH AND INVESTMENTS

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2022, and 2021 in accordance with District policy, \$1,189,683 and \$1,178,218 respectively, of the District's deposits were covered by federal depository insurance and \$605,594 and \$1,017,952, respectively, were collateralized by securities held by the pledging financial institution's agent or trust department in the District's name. Thus, the District had no deposits that were exposed to custodial credit risk.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 3 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

At December 31, 2022 and 2021, the District's deposits were as follows:

December 31, 2022

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ -	\$ -
Time & Savings	1,795,277	1,229,739
Total Deposits	<u>\$ 1,795,277</u>	<u>\$ 1,229,739</u>

December 31, 2021

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ -	\$ -
Time & Savings	2,196,170	1,594,359
Total Deposits	<u>\$ 2,196,170</u>	<u>\$ 1,594,359</u>

Reconciliation to Statement of Net Position:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Unrestricted Cash, Including Time Deposits	\$ 186,092	\$ 280,268
Restricted Cash, Including Time Deposits	1,044,147	1,314,591
Less Cash on Hand	(500)	(500)
	<u>\$ 1,229,739</u>	<u>\$ 1,594,359</u>

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Debt Service	\$ 398,152	\$ 484,469
Depreciation Account	523,461	597,026
Customer Deposits & Impact Charge Escrow	121,889	142,945
Construction Account	645	90,151
Total	<u>\$ 1,044,147</u>	<u>\$ 1,314,591</u>

Restricted receivables consist of the following:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Interest Receivable	\$ -	\$ 915

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$160,168 and \$146,512 at December 31, 2022 and 2021, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

Estimated unbilled water service revenue of \$161,706 and \$140,729 is included in accounts receivable at December 31, 2022 and 2021, respectively.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 6 – OTHER RECEIVABLES

At December 31, 2022 and 2021, the District recorded other receivables of \$1,620 from an employee of Henry County Water District #2. At December 31, 2022, the District recorded additional other receivables of \$10,920.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2022 and 2021, was as follows:

	<u>Balance at</u> <u>January 1, 2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>December 31, 2022</u>
Land & Land Rights	\$ 193,776	\$ -	\$ -	\$ 193,776
Structures & Improvements	30,722,557	39,848	-	30,762,405
Distribution System	3,050,113	57,660	-	3,107,773
Machinery & Equipment	2,604,583	101,737	(11,031)	2,695,289
Construction in Process	-	6,215	-	6,215
Totals at Historical Cost	<u>\$ 36,571,029</u>	<u>\$ 205,460</u>	<u>\$ (11,031)</u>	<u>\$ 36,765,458</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (17,494,503)	\$ (626,750)	\$ -	\$ (18,121,253)
Distribution System	(1,612,977)	(47,617)	-	(1,660,594)
Machinery & Equipment	(1,432,167)	(150,711)	6,894	(1,575,984)
Total Accumulated Depreciation	<u>\$ (20,539,647)</u>	<u>\$ (825,078)</u>	<u>\$ 6,894</u>	<u>\$ (21,357,831)</u>
Capital Assets, Net	<u>\$ 16,031,382</u>	<u>\$ (619,618)</u>	<u>\$ (4,137)</u>	<u>\$ 15,407,627</u>

	<u>Balance at</u> <u>January 1, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>December 31, 2021</u>
Land & Land Rights	\$ 192,776	\$ 1,000	\$ -	\$ 193,776
Structures & Improvements	30,315,933	406,624	-	30,722,557
Distribution System	2,983,673	66,440	-	3,050,113
Machinery & Equipment	2,247,628	362,955	(6,000)	2,604,583
Construction in Process	253,475	-	(253,475)	-
Totals at Historical Cost	<u>\$ 35,993,485</u>	<u>\$ 837,019</u>	<u>\$ (259,475)</u>	<u>\$ 36,571,029</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (16,866,144)	\$ (628,359)	\$ -	\$ (17,494,503)
Distribution System	(1,566,910)	(46,067)	-	(1,612,977)
Machinery & Equipment	(1,290,417)	(147,750)	6,000	(1,432,167)
Total Accumulated Depreciation	<u>\$ (19,723,471)</u>	<u>\$ (822,176)</u>	<u>\$ 6,000</u>	<u>\$ (20,539,647)</u>
Capital Assets, Net	<u>\$ 16,270,014</u>	<u>\$ 14,843</u>	<u>\$ (253,475)</u>	<u>\$ 16,031,382</u>

Included under the District's capital assets were \$5,999,663 and \$5,905,148 of fully depreciated assets, at December 31, 2022 and 2021, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$825,078 and \$822,176 in 2022 and 2021, respectively.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 8 – CUSTOMER DEPOSITS/ESCROW

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

NOTE 9 – DEFERRED OUTFLOWS OF RESOURCES

In 2013, Henry County Water District adopted GASB 65, *Items Previously Reported as Assets and Liabilities*. Under GASBS No. 65 a consumption of net position by the District that is applicable to a future period is reported as a deferred outflow of resources.

The following is a summary of the District's deferred outflows of resources associated with early debt retirement:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Difference between the reacquisition price and the net carrying amount of the old bond issues refunded.		
2010 Bond Issue	\$ 66,630	\$ 79,025
2013 Bond Issue	43,031	47,725
	<u>\$ 109,661</u>	<u>\$ 126,750</u>

Amounts reported as deferred outflows of resources due to the advance refunding of old bond issues will be amortized over the shorter of the life of the old or new debt and recognized in interest expense as follows:

Year Ended December 31, 2022:	Deferred Outflows of Resources
2023	\$ 17,089
2024	17,089
2025	17,089
2026	17,089
2027	17,089
2028-2032	24,216
	<u>\$ 109,661</u>
Year Ended December 31, 2021:	Deferred Outflows of Resources
2022	\$ 17,089
2023	17,089
2024	17,089
2025	17,089
2026	17,089
2027-2031	40,521
2032	784
	<u>\$ 126,750</u>

The District's deferred outflows of resources attributable to the District's employee pension and OPEB plans are detailed in Note 17 and Note 18.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 10 – SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2022, follows:

	<u>Balance at January 1, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at December 31, 2022</u>
United Citizens Bank & Trust Co.				
Loans Payable - Direct Borrowing	\$ 11,524	\$ -	\$ (11,524)	\$ -

Loan payable represents temporary financing obtained from the United Citizens Bank & Trust Company for cash reserves. The loan was approved as part of the budget proposal in January 2021 due to budgeted capital improvements. The loan was fully repaid in January, 2022.

NOTE 11 – LONG-TERM DEBT

Direct Placement and Direct Borrowing Debt

As of December 31, 2022 and 2021, the long-term debt payable consisted of the following:

Notes Payable:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Kentucky Infrastructure Authority represents a 20-year loan secured by water revenues. Interest is charged at 1.75% per annum. In addition, a loan servicing fee of 0.25% of the annual outstanding loan balance will be payable to the authority as part of each interest payment. Original loan amount was \$2,222,244. Semi-annual payments with final maturity December 1, 2037.	\$ 1,741,556	\$ 1,842,267
Kentucky Infrastructure Authority represents a 20-year loan secured by water revenues. Interest is charged at 1.75% per annum. In addition, a loan servicing fee of 0.25% of the annual outstanding loan balance will be payable to the authority as part of each interest payment. Original loan amount was \$2,153,041. Semi-annual payments with final maturity December 1, 2034.	1,380,599	1,483,144
Total Notes Payable	\$ 3,122,155	\$ 3,325,411
Current Portion	\$ 206,829	\$ 134,346
Noncurrent Portion	2,915,326	3,191,065
Total Notes Payable	\$ 3,122,155	\$ 3,325,411

Bonds Payable:

2010 B Bond Issue, original issue amount of \$5,663,000, secured by water revenues. Interest is charged 3.20% to 4.33% per annum. Final maturity is January 1, 2028.	\$ 1,823,000	\$ 2,199,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program) Series 2013B, original issue (District Share) \$2,760,000, secured by water revenues. Interest is charged at the rates of 2.30% - 3.55% per annum. Final maturity is February 1, 2032.	1,255,000	1,375,000
Total Bonds Payable	\$ 3,078,000	\$ 3,574,000

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 11 – LONG-TERM DEBT

Bonds Payable (Continued):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current Portion	\$ 518,000	\$ 496,000
Noncurrent Portion	2,560,000	3,078,000
Total Notes Payable	<u>\$ 3,078,000</u>	<u>\$ 3,574,000</u>
Unamortized Bond Premium	2,068	2,452
Total Bonds Payable Including Unamortized Bond Premium and Discount	<u>\$ 3,080,068</u>	<u>\$ 3,576,452</u>

Accrued Compensated Absences:

Accrued Compensated Absences (All Current)	<u>\$ 34,351</u>	<u>\$ 32,071</u>
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Kentucky Infrastructure Authority – Federally Assisted Drinking Water Revolving Loan Fund

On April 6, 2018, Henry County Water District #2 closed a loan in the amount of \$2,222,244 with Kentucky Infrastructure Authority secured by water revenues. Interest is charged at 1.75% per annum. In addition, a loan servicing fee of 0.25% of the annual outstanding balance will be payable to the authority as part of each interest payment. Loan proceeds were used to construct a new 1-million-gallon composite storage tank. Final maturity is December 1, 2037.

Kentucky Infrastructure Authority – Federally Assisted Drinking Water Revolving Loan Fund

On October 6, 2014 Henry County Water District closed a loan in the amount of \$2,153,041 with Kentucky Infrastructure Authority secured by water revenues. Interest is charged at 1.75% per annum. In addition, a loan servicing fee of 0.25% of the annual outstanding loan balance will be payable to the authority as part of each interest payment. Proceeds from this loan were used to install approximately 24,000 linear feet of water main. Final maturity is December 1, 2034.

Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds, Series 2010 B

On May 13, 2010 Henry County Water District entered into a \$5,663,000 bond agreement with Kentucky Rural Water Finance Corporation. The proceeds of the bonds were used to refund the District's then outstanding Refunding Revenue Bonds, Series 1998 (principal, interest, and 1% redemption premium as required). Final maturity on the 2010 issue is January 1, 2028.

Bonds Payable Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2013B

On February 27, 2013, Henry County Water District #2 issued \$2,760,000, Series 2013B Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds with interest rates of 2.30% - 3.55% to advance refund \$370,000 Series 2001D and \$2,333,000 Series 2003 revenue bonds outstanding. The 2001D Series was originally issued at 2.4% to 4.75% per annum. The 2003 Series was issued at 4.06% to 4.81% per annum. The refunded bonds were redeemed on February 27, 2013 at a price equal to 100% of the principal amounts of the refunded bonds outstanding at that date. Bond issuance costs were \$61,389 which were expensed when incurred.

As a result of the advance refunding, the District reduced its total debt service requirements by \$476,674, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$356,023. Final maturity on the 2013 issue is February 1, 2032.

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 11 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt

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

December 31, 2022

	Balance at January 1, 2022	Additions	Retirements	Balance at December 31, 2022	Current Portion
Notes Payable	\$ 3,325,411	\$ -	\$ 203,256	\$ 3,122,155	\$ 206,829
Bonds Payable	3,574,000	-	496,000	3,078,000	518,000
Accrued Compensated Absences	32,071	57,091	54,811	34,351	34,351
Total Long-Term Debt	<u>\$ 6,931,482</u>	<u>\$ 57,091</u>	<u>\$ 754,067</u>	<u>\$ 6,234,506</u>	<u>\$ 759,180</u>

December 31, 2021

	Balance at January 1, 2021	Additions	Retirements	Balance at December 31, 2021	Current Portion
Notes Payable	\$ 3,525,158	\$ -	\$ 199,747	\$ 3,325,411	\$ 134,346
Bonds Payable	4,054,000	-	480,000	3,574,000	496,000
Accrued Compensated Absences	30,314	51,627	49,870	32,071	32,071
Total Long-Term Debt	<u>\$ 7,609,472</u>	<u>\$ 51,627</u>	<u>\$ 729,617</u>	<u>\$ 6,931,482</u>	<u>\$ 662,417</u>

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

	Note Payable	Note Payable Interest	Service Fee	Bonds	Bond Interest	Trustee Fees	Total Principal, Interest, Trustee Fee and Servicing Fee
2023	\$ 206,829	\$ 53,737	\$ 7,677	\$ 518,000	\$ 117,762	\$ 900	\$ 904,905
2024	210,465	50,102	7,158	543,000	97,600	900	909,225
2025	214,164	46,403	6,629	507,000	76,289	900	851,385
2026	217,928	42,637	6,091	525,000	56,490	900	849,046
2027	221,758	38,808	5,544	390,000	35,655	900	692,665
2028-2032	1,168,647	134,183	19,169	595,000	51,777	1,800	1,970,576
2033-2037	882,364	36,305	5,186	-	-	-	923,855
	<u>\$ 3,122,155</u>	<u>\$ 402,175</u>	<u>\$ 57,454</u>	<u>\$ 3,078,000</u>	<u>\$ 435,573</u>	<u>\$ 6,300</u>	<u>\$ 7,101,657</u>

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

	Note Payable	Note Payable Interest	Service Fee	Bonds	Bond Interest	Trustee Fees	Total Principal, Interest, Trustee Fee and Servicing Fee
2022	\$ 203,257	\$ 57,309	\$ 8,187	\$ 496,000	\$ 136,914	\$ 900	\$ 902,567
2023	206,829	53,737	7,677	518,000	117,762	900	904,905
2024	210,465	50,102	7,158	543,000	97,600	900	909,225
2025	214,164	46,403	6,629	507,000	76,289	900	851,385
2026	217,928	42,637	6,091	525,000	56,490	900	849,046
2027-2031	1,148,460	154,369	22,053	985,000	87,432	2,700	2,400,014
2032-2036	993,514	53,208	7,600	-	-	-	1,054,322
2037	130,795	1,719	246	-	-	-	132,760
	<u>\$ 3,325,412</u>	<u>\$ 459,484</u>	<u>\$ 65,641</u>	<u>\$ 3,574,000</u>	<u>\$ 572,487</u>	<u>\$ 7,200</u>	<u>\$ 8,004,224</u>

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 12 – COMPENSATED ABSENCES

Vacation and sick pay are considered expenditures in the year earned.

Vacation Days

All full-time employees earn one week of vacation time at the beginning of the first whole calendar year of employment and one additional day per year up to the maximum of four weeks. Only two weeks of unused vacation time may be carried over to the next year. If there is still any vacation leave remaining, the employee will be paid straight time for that portion not carried over in January of the following year. If an employee has accumulated vacation leave at time of retirement or resigning, he may have the option to use the leave time or receive payment at his/her regular rate. A terminated employee will be compensated for any accrued vacation time.

At December 31, 2022 and 2021, a liability for accrued vacation was recorded in the amount of \$34,351 and \$32,071, respectively.

Sick and Personal Days

All full-time employees earn 1 sick day per month. An employee may carry over any sick leave accrued during the year that was not used, without limit. When the employee retires or resigns, there will be no pay for unused sick leave. Full time personnel earn 4 personal days per year with no carry-over or pay for any unused time.

At December 31, 2022 and 2021, the District had an unrecorded sick pay liability to its employees of \$193,182 and \$171,449, respectively. The estimated liabilities include required salary related payments.

NOTE 13 – FUND EQUITY- RESTRICTED NET POSITION

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Restricted for Capital Projects:		
Monies Reserved for Future System Improvements	\$ 645	\$ 90,151
Total Restricted for Capital Projects	<u>\$ 645</u>	<u>\$ 90,151</u>
 Restricted for Debt Service:		
2010 and 2013 Bond Issues & KIA Notes Payable		
Cash	\$ 921,614	\$ 1,081,495
Add: Accrued Interest Receivable	-	915
Less: Accrued Interest Payable	(4,491)	(4,783)
Total Restricted for Debt Service	<u>\$ 917,123</u>	<u>\$ 1,077,627</u>

NOTE 14 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$13,655 and \$1,630 at December 31, 2022 and 2021, respectively.

NOTE 15 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2022 and 2021 was \$219,787 and \$244,278, respectively.

NOTE 16 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the purchase of commercial insurance. The District is also subject to the risks associated with employee injury. These risks are covered through premiums paid to Kentucky Employers' Mutual Insurance, a commercial insurance company. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 17 – RETIREMENT PLAN

The Henry County Water District #2 is a participating employer of the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees administered by the Kentucky Public Pension Authority (KPPA). Under the provisions of Kentucky Revised Statute 78.782 and 61.645, the KPPA oversees the administration and operation of the CERS. The CERS Board has nine trustees, three elected by the membership and six appointed by the Governor. The CERS issues a publicly available financial report that includes financial statements, required supplementary information, and detailed information about CERS' fiduciary net position. These financial statements may be downloaded from the KPPA website, kyret.ky.gov.

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

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

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

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

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

For the year ended December 31, 2022, the District contributed \$217,087 or 100% of the required contribution for non-hazardous job classifications.

House Bill 362 passed during the 2018 legislative session caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028.

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 17 – RETIREMENT PLAN (Continued)

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old and 4 years of service
	Reduced retirement	At least 5 years service and 55 years old or 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87+
	Reduced retirement	Not available

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

Prior to July 1, 2009, cost-of-living (COLA) adjustments were provided annually equal to the percentage increase in the annual average of the consumer price index (CPI) for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.50%. Senate Bill 2 passed during the 2013 Regular Session states COLAs will only be granted in the future if the Systems' Boards determine that assets of the Systems are greater than 100% of the actuarial liabilities and legislation authorizes the use of surplus funds for the COLA. Cost-of-living adjustments are provided at the discretion of the Kentucky General Assembly. Kentucky Revised Statute 78.5518 governs how COLAs may be granted for members of CERS. No COLA has been granted since July 1, 2011.

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

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 17 – RETIREMENT PLAN (Continued)

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

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 Years, closed period at June 30, 2019, <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

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

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

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

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 17 – RETIREMENT PLAN (Continued)

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension - At December 31, 2022, the District reported a liability of \$2,477,961 for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022, the District's proportion was 0.034278 percent, which was a decrease of 0.001497 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized pension expense of \$220,996. At December 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2022		December 31, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 2,649	\$ 22,067	\$ 26,192	\$ 22,138
Change in Assumptions	-	-	30,613	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	39,192	64,726	95,965	-
Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	337,176	273,650	88,485	392,496
District Contributions Made Subsequent to the NPL Measurement Date	110,593	-	101,697	-
Total	\$ 489,610	\$ 360,443	\$ 342,952	\$ 414,634

\$110,593 and \$101,697 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2023 and December 31, 2022, respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 17 – RETIREMENT PLAN (Continued)

between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

Year Ended December 31, 2022	Increase (Decrease) to Pension Expense
2023	\$ (2,351)
2024	(28,645)
2025	(20,823)
2026	70,393
	<u>\$ 18,574</u>

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2022, calculated using the discount rates of 6.25%], as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2022</u>	<u>1% Decrease [5.25%]</u>	<u>Current Discount [6.25%]</u>	<u>1% Increase [7.25%]</u>
Net Pension Liability	\$ 9,035,369,943	\$ 7,229,013,496	\$ 5,735,006,798
District's Proportionate Share	3,097,144	2,477,961	1,965,846

Payable to the Pension Plan - The District reported a payable of \$22,655, as of December 31, 2022, for the outstanding amount of contributions required to the pension plan required for the year then ended. The payable includes both the pension and insurance contribution allocation.

NOTE 18 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 17, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 18 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Contributions – As more fully described in Note 17, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2022, the employer's contribution was 5.78% through June 30th and 3.39% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employees are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of the Kentucky Public Pension Authority are financed through employer contributions and investment earnings.

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

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

For the year ended December 31, 2022, the District contributed \$35,516 of 100% of the required contribution for non-hazardous job classifications.

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

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

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 18 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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

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

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

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

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

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At December 31, 2022, the District reported a liability of \$676,363 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 18 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022, the District's proportionate share was 0.034272 percent, which was a decrease of 0.001495 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized OPEB expense of \$79,275. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	December 31, 2022		December 31, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 68,082	\$ 155,106	\$ 107,676	\$ 204,441
Change in Assumptions	106,971	88,144	181,538	637
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	21,209	29,974	29,527	7,927
Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments	125,946	98,494	34,499	141,618
District Contributions Made Subsequent to the Net OPEB Measurement Date	16,022	-	27,766	-
Total	\$ 338,230	\$ 371,718	\$ 381,006	\$ 354,623

\$16,022 and \$27,766 reported as deferred outflows of resources related to OPEB arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the years ended December 31, 2023 and 2022 respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources and deferred inflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

Year Ended December 31, 2022	Increase (Decrease) to OPEB Expense
2023	\$ (2,688)
2024	(2,265)
2025	(42,295)
2026	(2,262)
	\$ (49,510)

Discount Rate – The single discount rate used to calculate the total OPEB liability within the plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021, valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material assumption changes. A single discount rate of 5.70% was used to measure the total OPEB liability as of June 30, 2022, for the CERS Nonhazardous plan. This is an increase of 0.50% from the 5.20% discount rate used to measure the total OPEB liability as of June 30, 2021, for the CERS Nonhazardous plan. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69% as reported in Fidelity Index's "20-year Municipal GO AA Index", as of June 30, 2022. Based on the stated assumptions and the projection of

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 18 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

cash flows as of the fiscal year ending June 30, 2022, the plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plan's actuarially determined contributions and any cost associated with the implicit subsidy will not be paid out of the plan trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in Note 17.

Sensitivity of the District's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate - The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2022, calculated using the single discount rate of 5.70%], as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2022	1% Decrease [4.70%]	Current Discount [5.70%]	1% Increase [6.70%]
Net OPEB Liability	\$ 2,638,272,960	\$ 1,973,513,617	\$ 1,423,979,067
District's Proportionate Share	904,189	676,363	488,026

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2022, calculated using the healthcare cost trend rate for the year ended June 30, 2022], as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2022	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 1,467,263,523	\$ 1,973,513,617	\$ 2,581,424,500
District's Proportionate Share	502,861	676,363	884,706

NOTE 19 – DEFICIT NET POSITION

An unrestricted net position deficit of \$2,454,392 and \$2,300,587 existed at December 31, 2022 and 2021, respectively. The deficit resulted from the recognition of net pension liability, net OPEB liability, and related deferred outflows of resources and deferred inflows of resources due to the implementation of GASB Statements No. 68 and 75.

Unrestricted net position was reduced by \$47,668 and \$104,898 for the years ended December 31, 2022 and 2021, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability and Net OPEB Liability. The accounts affected were as follows:

	2022	2021
Increase (Decrease) in Deferred Outflows of Resources	\$ 103,882	\$ (60,084)
(Increase) Decrease in Deferred Inflows of Resources	37,096	(545,985)
(Increase) Decrease in Net Pension Liability	(197,024)	355,981
(Increase) Decrease in Net OPEB Liability	8,378	145,190
Net Decrease in Unrestricted Net Position	<u>\$ (47,668)</u>	<u>\$ (104,898)</u>

NOTE 20 – ECONOMIC DEPENDENCY

Henry County Water District #2 provides water services to residential and commercial customers in the Kentucky counties of Henry, Trimble, Carroll, Oldham and Shelby. The District also supplies water for resale to the cities of Eminence and New Castle located in Henry County. It should be noted that 7.73% and 7.49% of the total water charges for services revenue was received from these cities for the years ended December 31, 2022 and 2021, respectively. Also, the District supplies water for resale to Carrollton Utilities at the same wholesale rate.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 21 – FUNDS HELD FOR FUTURE LINES AND CONTRIBUTED CAPITAL

The District collects funds from developers for their allocable cost of line extensions. The amount is calculated based on the size of the line and the number of estimated hook-ups. As others pay to hook-up to the line, portions of these funds are refunded to the developer. Once a line has been completed, the developer's cost of the line is recorded as capital contributions from customers. The District did not hold any funds for future lines at December 31, 2022 and 2021, respectively.

NOTE 22 – SUBSEQUENT EVENTS

On April 20, 2023, the District filed its application with the Public Service Commission (PSC) requesting an adjustment to its water rates. In this application, the District requested a 15% rate increase to water rates. The estimated increase to annual water sales revenues by this rate increase is \$567,558. The PSC is currently reviewing the District's application for rate increase.

The District has been awarded Cleaner Water Program (CWP) Grants of \$433,230 through the Kentucky Infrastructure Authority. These funds are provided through the American Rescue Plan Act of 2021, Corona Virus State Recovery Fund and must be obligated by December 31, 2026. Management has considered subsequent events through the date of this report September 12, 2023, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2022.

HENRY COUNTY WATER DISTRICT #2
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
For the Years Ended December 31

Reporting Year End (Measurement Date)	2022 (June 30, 2022)	2021 (June 30, 2021)	2020 (June 30, 2020)	2019 (June 30, 2019)	2018 (June 30, 2018)	2017 (June 30, 2017)	2016 (June 30, 2016)	2015 (June 30, 2015)	2014 (June 30, 2014)
District's proportion of the net pension liability %	0.034278%	0.035775%	0.034380%	0.033544%	0.033049%	0.034121%	0.034850%	0.031399%	0.033750%
District's proportionate share of the net pension liability (asset)	\$ 2,477,961	\$ 2,280,937	\$ 2,638,918	\$ 2,359,164	\$ 2,012,785	\$ 1,997,207	\$ 1,715,920	\$ 1,350,032	\$ 1,095,000
District's covered employee payroll (calendar year)	\$ 940,108	\$ 953,995	\$ 891,854	\$ 880,868	\$ 838,880	\$ 787,500	\$ 851,267	\$ 843,338	\$ 766,921
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	263.58%	239.09%	295.67%	267.82%	240.52%	253.61%	201.57%	160.08%	142.78%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.45%	53.54%	53.3%	55.5%	59.97%	62.60%

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

HENRY COUNTY WATER DISTRICT #2
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM
For Years Ended December 31

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contributions	\$ 217,087	\$ 193,104	\$ 172,136	\$ 151,695	\$ 126,841	\$ 110,735	\$ 114,120	\$ 109,232
Contributions in relation to the contractually required contributions	217,087	193,104	172,136	151,695	126,841	110,735	114,120	109,232
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (calendar year)	\$ 940,108	\$ 953,995	\$ 891,854	\$ 880,868	\$ 836,880	\$ 787,500	\$ 851,267	\$ 843,338
Contributions as a percentage of covered payroll	23.09%	20.24%	19.54%	17.22%	15.16%	14.06%	13.41%	12.95%

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

HENRY COUNTY WATER DISTRICT #2
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
For the Years Ended December 31

Reporting Year End (Measurement Date)	2022 (June 30, 2022)	2021 (June 30, 2021)	2020 (June 30, 2020)	2019 (June 30, 2019)	2018 (June 30, 2018)	2017 (June 30, 2017)
District's proportion of the net OPEB liability (asset) %	0.034272%	0.035767%	0.034370%	0.033536%	0.033047%	0.034121%
District's proportionate share of the net OPEB liability (asset)	\$ 676,363	\$ 684,741	\$ 829,931	\$ 564,060	\$ 586,743	\$ 685,949
District's covered employee payroll (Calendar Year)	\$ 940,108	\$ 953,995	\$ 891,854	\$ 880,868	\$ 836,880	\$ 787,500
District's proportionate share of the net OPEB liability (asset) as a percentage of its of its covered payroll	71.95%	71.77%	93.06%	64.03%	70.11%	87.10%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%	52.4%

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

HENRY COUNTY WATER DISTRICT #2
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contributions	\$ 35,516	\$ 50,310	\$ 42,444	\$ 49,226	\$ 41,160	\$ 37,547	\$ 38,695	\$ 37,037
Contributions in relation to the contractually required contributions	35,516	50,310	42,444	49,226	41,160	37,547	38,695	37,037
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (calendar year)	\$ 940,108	\$ 953,995	\$ 891,854	\$ 880,868	\$ 836,880	\$ 787,500	\$ 851,267	\$ 843,338
Contributions as a percentage of covered payroll	3.78%	5.27%	4.82%	5.59%	4.92%	4.78%	4.55%	4.39%

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022 AND 2021

1. General Information

Contributions

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

Payroll

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

2. Changes in Assumptions

December 31, 2022 – Pension & OPEB

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

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

December 31, 2021 – Pension & OPEB

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

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

- Salary Increases of 3.30% to 10.30%, varies by service
- System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
- Pre-65 initial healthcare trend rate starting at 6.25% at January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
- Post-65 initial healthcare trend rate starting at 5.50% at January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2020 premiums were known at the time of valuation and were incorporated into the liability measurement.

HENRY COUNTY WATER DISTRICT #2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2022 AND 2021

2. Changes in Assumptions (Continued)

December 31, 2020 – Pension & OPEB

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

- Pre-65 initial healthcare trend rate starting at 7.0% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
- Post-65 initial healthcare trend rate starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of valuation and were incorporated into the liability measurement.

December 31, 2019 – Pension & OPEB

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

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

December 31, 2018 – Pension & OPEB

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
December 31, 2022 and 2021

2. Changes in Assumptions (Continued)

December 31, 2017 – Pension

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

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

December 31, 2016 – Pension

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

December 31, 2015 – Pension

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

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

December 31, 2014 – Pension

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

December 31, 2013 – Pension

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

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

Dennis S. Raisor, CPA
Jerilyn P. Zapp, CPA
Jeffery C. Woods, CPA
Susan A. Dukes, CPA

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

**To the Commissioners of the
Henry County Water District #2
Campbellsburg, Kentucky 40011**

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 Henry County Water District #2 as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Henry County Water District #2's basic financial statements, and have issued our report thereon dated September 12, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Henry County Water District #2's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Henry County Water District #2's internal control. Accordingly, we do not express an opinion on the effectiveness of Henry County Water District #2's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

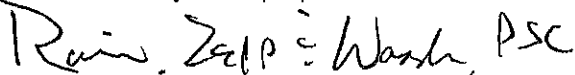
As part of obtaining reasonable assurance about whether Henry County Water District #2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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*.

Henry County Water District #2's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Henry County Water District #2's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Henry County Water District #2's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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



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

September 12, 2023

**HENRY COUNTY WATER DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2022**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Henry County Water District #2 were prepared in accordance with GAAP.
2. Two material weaknesses in internal control related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Items 2022-001 and 2022-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Henry County Water District #2, were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES

2022-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CRITERIA:

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

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. General ledger accounts are not reconciled consistently. Supporting documentation was not maintained for all transactions. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2021 as Item 2021-001.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

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

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes.

VIEWS of RESPONSIBLE OFFICIALS:

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel. Additionally, the Board intends to address this issue through enhanced checking procedures of the District's day-to-day operations.

**HENRY COUNTY WATER DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2022**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

MATERIAL WEAKNESSES (CONTINUED)

**2022-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED
NOTE DISCLOSURES**

CRITERIA:

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

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2021 as Item 2021-002.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor's assistance to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

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

VIEWS of RESPONSIBLE OFFICIALS:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and approved the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

None