LARUE COUNTY WATER DISTRICT NO. 1

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2021 AND 2020

LARUE COUNTY WATER DISTRICT NO. 1

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Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Larue County Water District No. 1
Buffalo, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Larue County Water District No. 1 as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Larue County Water District No. 1, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards),* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Larue County Water District No. 1, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Larue County Water District No. 1'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.

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713 McDowell Blvd. / Bardstown, KY 40004 / Phone 502-348-1433 / Fax 502-349-6365

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Larue County Water District No. 1'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 Larue County Water District No. 1's ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2021, the District adopted Governmental Accounting Standards Board Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* and Statement 93, *Replacement of Interbank Offered Rates.* Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 8, schedule of proportionate share of the net pension and OPEB liabilities on pages 32 and 33 and schedule of contributions on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Larue County Water District No. 1's basic financial statements. The accompanying Schedule 1 and II and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules I and II and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises Schedule III but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2022, on our consideration of Larue County Water District No. 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Larue County Water District No. 1's internal control over financial reporting and compliance.

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
September 26, 2022

REQUIRED SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2021

The discussion and analysis of Larue County Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2021. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the District was $2.39 million. The balance at December 31, 2020, was $2.07 million. This reflects a $.32 million increase in cash and investments during the year.

- The District invested approximately $1.9 million in capital assets during the year.

USING THIS ANNUAL REPORT

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

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

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

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

The ***notes to the basic financial statements*** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

ENTITY-WIDE FINANCIAL ANAYLSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by $8.01 million and $7.86 million as of December 31, 2021 and 2020.

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

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

(Table 1)
Summary of Net Position
as of December 31, 2021 and 2020

	2021	2020
Assets		
Current and Other Assets	$ 3,544,726	$ 3,277,967
Captial Assets	10,341,197	8,878,436
Total Assets	13,885,923	12,156,403
Deferred Outflows of Resources	139,730	160,640
Liabilities		
Long-term Liabilities	5,467,036	3,823,167
Other Liabilities	280,689	439,188
Total Liabilities	5,747,725	4,262,355
Deferred Inflows of Resources	265,044	196,179
Net Position		
Net investment in capital assets	5,628,692	5,988,266
Restricted	1,740,553	1,496,910
Unrestricted	643,639	373,333
Total Net Position	$ 8,012,884	$ 7,858,509

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), increased $270 thousand at December 31, 2021. Restricted net position increased $243 thousand. Net investment in capital assets decreased $360 thousand.

(Table 2)
Changes in Net Position
Years Ending December 31, 2021 and 2020

	2021	2020
OPERATING REVENUES:		
Water sales	$ 1,796,673	$ 1,641,676
Other operating income	70,003	11,224
TOTAL OPERATING REVENUES	1,866,676	1,652,900
OPERATING EXPENSES:		
Water purchased	471,271	469,310
Power purchased	32,205	27,299
Meter labor and expense	311,176	312,302
Bad debt	-	4,136
Repairs and maintenance	95,370	56,963
General and administrative expenses	319,240	298,068
Depreciation	402,618	396,507
TOTAL OPERATING EXPENSES	1,631,880	1,564,585
OPERATING LOSS	234,796	88,315
NON-OPERATING REVENUES (EXPENSES):		
Interest income	9,352	26,109
Interest expense on long-term debt	(169,936)	(87,791)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(160,584)	(61,682)
CAPITAL CONTRIBUTIONS	80,163	55,859
CHANGE IN NET POSITION	154,375	82,492
NET POSITION, beginning of year	7,858,509	7,776,017
NET POSITION, end of year	$ 8,012,884	$ 7,858,509

Operating revenue increased 12.9% as compared to the prior year as new customers were added. Total operating expenses increased 4.3%. Interest expense on long-term debt declined .94%. The District continues to receive capital contributions from customers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2021 and 2020, the District had $10.3 million and $8.9 million invested in a variety of capital assets, as reflected in the following tables:

(Table 3)
Capital Assets (Net of Depreciation
as of December 31, 2021 and 2020

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	2021	2020
Non-Depreciable Assets:		
Land and land rights	$ 301,361	$ 301,361
Construction in progress	2,674,900	871,145
Depreciable Assets:		
Structures and improvements	67,308	77,490
Electric pumping equipment	104,585	106,170
Standpipes and tanks	1,525,698	1,581,200
Transmission and distribution mains	4,953,927	5,154,752
Services	238,435	264,631
Hydrants	77,881	80,148
Office furniture and fixtures	6,529	9,769
Transportation equipment	37,133	66,885
Tool and shop equipment	6,421	8,121
Meters & installation	347,029	356,764
Capital Assets, net of accumulated depreciation	$ 10,341,207	$ 8,878,436

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2021 and 2020

	2021	2020
Beginning Balance	$ 8,878,436	$ 8,333,865
Additions	1,865,389	941,080
Retirements	-	-
Depreciation	(402,618)	(396,509)
Ending Balance	$ 10,341,207	$ 8,878,436

Debt

At December 31, 2021 and 2020, the District had $2.8 million and $219 thousand, in revenue bonds outstanding and $1.9 million and $2.0 million of notes payable. A total of $149 thousand is due within the calendar year 2022. During the year ended December 31, 2021 the District issued $2.8 million in revenue bonds.

(Table 5)
Outstanding Debt
as of December 31, 2021 and 2020

	2021	2020
Revenue bonds	$ 2,800,000	$ 219,000
Notes payable	1,903,334	2,003,334
Construction loan payable	-	657,845
Unamortized discount premium	9,181	9,991
Total	$ 4,712,515	$ 2,890,170

District Challenges for the Future

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

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

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Tim Bartley, General Manager, 6215 North L&N Turnpike, Buffalo, Kentucky 42716, (270) 325-3242.

FINANCIAL STATEMENTS

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF NET POSITION

DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 429,968	$ 360,214
Unrestricted investments	220,353	217,802
Accounts receivable, net	128,809	128,019
Unbilled receivables	74,423	76,680
Prepaid loan payment	14,532	14,532
Prepaid expenses	17,743	23,726
Materials and supplies	20,741	12,440
TOTAL CURRENT ASSETS	906,569	833,413
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	335,063	497,337
Restricted investments	1,405,490	999,573
Regulatory asset- CERS Pension	676,440	720,019
Regulatory asset- CERS OPEB	221,154	227,625
Non-depreciable capital assets	2,976,261	1,172,506
Depreciable capital assets, net of accumulated depreciation	7,364,946	7,705,930
TOTAL NONCURRENT ASSETS	12,979,354	11,322,990
TOTAL ASSETS	13,885,923	12,156,403
DEFERRED OUTFLOWS OF RESOURCES		
CERS Pension	51,907	74,461
CERS OPEB	87,823	86,179
TOTAL DEFERRED OUTFLOWS OF RESOURCES	139,730	160,640
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	37,362	34,922
Construction costs payable	-	213,300
Payroll and other accrued liabilities	15,662	6,415
Accrued vacation	55,221	58,227
Accrued interest	284	284
Customer deposits	23,160	22,040
Note and bond payable	149,000	104,000
TOTAL CURRENT LIABILITIES	280,689	439,188
NONCURRENT LIABILITIES:		
Customer deposits	131,241	124,892
Net pension liability- CERS Pension	593,968	693,744
Net pension liability- CERS OPEB	178,312	218,361
Construction loan payable	-	657,845
Note and bond payable	4,563,515	2,128,325
TOTAL NONCURRENT LIABILITIES	5,467,036	3,823,167
TOTAL LIABILITIES	5,747,725	4,262,355
DEFERRED INFLOWS OF RESOURCES		
CERS Pension	134,379	100,736
CERS OPEB	130,665	95,443
TOTAL DEFERRED INFLOWS OF RESOURCES	265,044	196,179
NET POSITION		
Net investment in capital assets	5,628,692	5,988,266
Restricted net position	1,740,553	1,496,910
Unrestricted	643,639	373,333
TOTAL NET POSITION	$ 8,012,884	$ 7,858,509

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

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING REVENUES:		
Water sales	$ 1,796,673	$ 1,641,676
Other operating income	70,003	11,224
TOTAL OPERATING REVENUES	1,866,676	1,652,900
OPERATING EXPENSES:		
Water purchased	471,271	469,310
Power purchased	32,205	27,299
Meter labor and expense	311,176	312,302
Bad debt	-	4,136
Repairs and maintenance	95,370	56,963
General and administrative expenses	319,240	298,068
Depreciation	402,618	396,507
TOTAL OPERATING EXPENSES	1,631,880	1,564,585
OPERATING INCOME	234,796	88,315
NON-OPERATING REVENUES (EXPENSES):		
Interest income	9,352	26,109
Interest expense on long-term debt	(169,936)	(87,791)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(160,584)	(61,682)
CAPITAL CONTRIBUTIONS	80,163	55,859
CHANGE IN NET POSITION	154,375	82,492
NET POSITION, beginning of year	7,858,509	7,776,017
NET POSITION, end of year	$ 8,012,884	$ 7,858,509

The accompanying notes are integral part of these financial statements.

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 1,868,143	$ 1,613,144
Payments to suppliers	(910,495)	(827,500)
Payments to employees	(304,935)	(322,344)
NET CASH PROVIDED BY OPERATING ACTIVITIES	652,713	463,300
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	(319,000)	(103,583)
Acquisition and construction of capital assets	(2,078,689)	(758,651)
Capital contributions	80,163	55,859
Construction loan proceeds	1,548,853	657,845
Construction loan payments	(2,207,508)	-
Revenue bond proceeds	2,800,000	-
Interest on long-term debt	(169,936)	(87,791)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(346,117)	(236,321)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(408,468)	
Interest income	9,352	26,109
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(399,116)	26,109
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,520)	253,088
CASH AND RESTRICTED CASH AND EQUIVALENTS, beginning of year	857,551	604,463
CASH AND RESTRICTED CASH AND EQUIVALENTS, end of year	$ 765,031	$ 857,551

	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 234,796	$ 88,315
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	402,618	396,507
Provision for bad debts	-	4,136
(Increase) in accounts receivable	(790)	(25,083)
(Increase) decrease in unbilled receivables	2,257	(14,673)
Decrease in prepaid expenses	5,983	-
(Inecrease) decrease in materials and supplies	(8,301)	9,472
Increase in accounts payable	2,440	5,945
Increase in customer deposits	7,469	9,328
Increase (decrease) increase in accrued payroll	9,247	(17,482)
Increase (decrease) in accrued vacation	(3,006)	6,835
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 652,713	$ 463,300

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

NOTES TO FINANCIAL STATEMENTS

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Larue County Water District No. 1 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Larue County, Kentucky.

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

A. REPORTING ENTITY

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

B. BASIC FINANCIAL STATEMENTS

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

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL STATEMENT AMOUNTS

1. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2021 and 2020, accounts receivable was stated net of an allowance for uncollectible accounts of $10,500 and $10,500. Bad debt expense for each of the years ended December 31, 2021 and 2020 was $0 and $4,136. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.

2. Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.

3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.

4. Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

   Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	Years
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-30

5. Amortization – Bond discounts and premiums are being amortized using the straight-line method over the life of each respective bond issue.

6. Cash Equivalents – For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

7. Compensation for Future Absences – Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

9. Revenues and Rate Structure – Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

10. Capital Contributions – Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

11. Long-term obligations are reported at face value, net of applicable premiums and discounts.

12. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

13. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District’s policy is first apply the expense toward restricted resources and then toward unrestricted resources.

14. Net Position – Net position is divided into three components:

    a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.

    b. Restricted net position – consists of assets that are restricted by the District’s creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.

    c. Unrestricted – all other net position is reported in this category.

15. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, deferred outflows, liabilities, deferred inflows, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

16. Pensions and OPEB – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

17. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This adoption did not have an effect on the financial statements.

In March 2020, the GASB issued Statement 93, *Replacement of Interbank Offered Rates.* This adoption did not have an effect on the financial statements.

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019, but was delayed by eighteen months with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. This statement is effective for periods beginning after December 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2020, the GASB Issued Statement 92, *Omnibus 2020*. This statement is effective for periods beginning after June 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The requirements in (1) paragraph 4 of the Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of the Statement are effective immediately. The requirements in paragraphs 6–9 of the Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of the Statement are effective for reporting periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In October 2021, the GASB issued Statement 98, *The Annual Comprehensive Financial Report.* This statement is effective for periods beginning after December 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In October 2021, the GASB issued Statement 99, *Omnibus 2022.* This statement is effective for periods beginning after December 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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

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

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2021 and 2020, $1,187,633 and $1,135,429 of the District's bank balance of $2,422,991 and $2,117,875 was exposed to custodial credit risk. At December 31, 2021 and 2020, none of the amount exposed to custodial risk was not collateralized.

NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2021 and 2020:

Restricted For	December 31, 2021		December 31, 2020	
Debt Service	$	172,581	$	156,194
Reserve & Depreciation		1,567,972		1,340,716
	$	1,740,553	$	1,496,910

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2021, is summarized as follows:

	Balance 12/31/2020	Additions	Retirements	Balance 12/31/2021
Non-Depreciable Assets:				
Land and land rights	$ 301,361	$ -	$ -	$ 301,361
Construction in progress	871,145	1,803,755	-	2,674,900
Total Non-Depreciable assets	1,172,506	1,803,755	-	2,976,261
Depreciable Assets:				
Total capital assets being depreciated	15,114,882	61,634	-	15,176,516
Total accumulated depreciation	(7,408,952)	(402,618)	-	(7,811,570)
Total capital assets being depreciated, net	7,705,930	(340,984)	-	7,364,946
Capital assets, net	$ 8,878,436	$ 1,462,771	$ -	$ 10,341,207

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2020, is summarized as follows:

	Balance 12/31/2019	Additions	Retirements	Balance 12/31/2020
Non-Depreciable Assets:				
Land and land rights	$ 300,861	$ 500	$ -	$ 301,361
Construction in progress	-	871,145	-	871,145
Total Non-Depreciable assets	300,861	871,645	-	1,172,506
Depreciable Assets:				
Total capital assets being depreciated	15,045,447	69,435	-	15,114,882
Total accumulated depreciation	(7,012,443)	(396,509)	-	(7,408,952)
Total capital assets being depreciated, net	8,033,004	(327,074)	-	7,705,930
Capital assets, net	$ 8,333,865	$ 544,571	$ -	$ 8,878,436

During the years ended December 31, 2021 and 2020, the District capitalized no interest.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 5 – LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

	Note and Bond Payable		Sinking Fund
Year	Principal	Interest	Requirements
2022	153,583	122,362	275,945
2023	159,583	118,330	277,913
2024	165,083	114,124	279,207
2025	171,083	109,745	280,828
2026	177,083	103,822	280,905
2027-2031	886,917	423,771	1,310,688
2032-2036	899,416	277,327	1,176,743
2037-2041	450,586	170,824	621,410
2042-2046	358,000	131,187	489,187
2047-2051	391,000	98,725	489,725
2051-2056	427,500	63,260	490,760
2056-2061	463,500	24,542	488,042
Total	$ 4,703,334	$ 1,758,019	$ 6,461,353

Changes in long-term obligations during the year ended December 31, 2021 were:

	Balance 12/31/2020	Additions	Reductions	Balance 12/31/2021	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	$ 219,000	$ 2,800,000.00	$ (219,000)	$ 2,800,000	$ 49,000
Note Payable	2,003,334	-	(100,000)	1,903,334	100,000
Unamortized Premium	9,992	-	(811)	9,181	-
Total	2,232,326	2,800,000.00	(319,811)	4,712,515	149,000
Other Liabilities:					
Customer Deposits	146,932	7,469	-	154,401	23,160
Long-Term Liabilities	$ 2,379,258	$ 2,807,469	$ (319,811)	$ 4,866,916	$ 172,160

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term obligations during the year ended December 31, 2020 were:

	Balance 12/31/2019	Additions	Reductions	Balance 12/31/2020	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	$ 223,000	$ -	$ (4,000)	$ 219,000	$ 4,000
Note Payable	2,102,917	-	(99,583)	2,003,334	100,000
Unamortized Premium	10,803	-	(811)	9,992	
Total	2,336,720	-	(104,394)	2,232,326	104,000
Other Liabilities:					
Customer Deposits	137,604	9,328	-	146,932	22,040
Long-Term Liabilities	$ 2,474,324	$ 9,328	$ (104,394)	$ 2,379,258	$ 126,040

Information relating to the outstanding bond and notes is summarized below:

Date of Issue	Interest Rate	Original Amount of Each Issue	Bonds and Notes Payable Outstanding December 31, 2021	2020
2012 Note Series F	2.00% - 3.625%	$ 2,680,000	$ 1,903,334	$ 2,003,334
2020 Revenue Bonds	1.75%	2,800,000	2,800,000	-

During the year ended December 31, 2021, the District issued $2,800,000 of water system revenue bonds.

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

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

Bond Reserve Fund
There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment.

Operation and Maintenance Fund
This fund receives, on a monthly basis, 90 percent of the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Reserve Fund.

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NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Depreciation Fund

This fund receives, on a monthly basis, 10 percent of the remaining balance in the Revenue Fund after the above transfers have been made and the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment. This account is funded until it reaches a balance of $25,500. This account was fully funded at December 31, 2021 and 2020.

NOTE 6 - RETIREMENT PLAN

Plan Description

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

Benefits Provided

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

Contributions

For the calendar year ended December 31, 2021, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 6 - RETIREMENT PLAN (CONTINUED)

The District’s contractually required contribution rate for the calendar year ended December 31, 2021, was 21.17 percent of creditable compensation. The District’s contractually required contribution rate for the calendar year ended December 31, 2020, was 19.30 percent of creditable compensation. Contributions to the pension plan for the years ended December 31, 2021 and 2020 from the District were $65,854 and $57,499.

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

At December 31, 2021, the District reported a liability of $593,968 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 using standard roll-forward techniques. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all, actuarially determined. At June 30, 2021, the District's proportion was 0.009316 percent, which was a decrease of .000089 percent from its proportion measured as of June 30, 2020.

For the years ended December 31, 2021 and 2020, the District recognized pension expense of $65,584 and $57,499. At December 31, 2021 and 2020, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 6,821	$ 5,765
Changes in actuarial assumptions	7,972	-
Difference between projected and actual investment earnings	23,042	102,208
Changes in proportionate and proportionate share of contributions	14,072	26,406
	$ 51,907	$ 134,379

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 17,300	$ -
Changes in actuarial assumptions	27,090	-
Difference between projected and actual investment earnings	30,071	12,711
Changes in proportionate and proportionate share of contributions	-	88,025
	$ 74,461	$ 100,736

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NOTE 6 - RETIREMENT PLAN (CONTINUED)

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

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Discount Rate	6.25 percent
Inflation	2.30 percent
Salary increases	3.30 percent to 10.30 percent, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was Pub-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

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

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NOTE 6 - RETIREMENT PLAN (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	21.75%	5.70%
Non- U.S. Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/ High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate of 6.25% for CERS Nonhazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as amended by House Bill 362 (passed in 2018) over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate of 5.25% for the KERS Nonhazardous, and 6.25% for KERS Hazardous, assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy, established in Statute as amended by House Bill 8, passed during the 2021 legislative session, over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the Annual Comprehensive Financial Report (ACFR).

Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liablility	$ 761,792	$ 593,968	$ 455,098

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NOTE 6 - RETIREMENT PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

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

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN

Plan Description

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

Benefits Provided

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

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LARUE COUNTY WATER DISTRICT NO.1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

Contributions

For the fiscal year ended June 30, 2021, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

The District's contractually required contribution rate for the calendar year ended December 31, 2021, was 5.78 percent of creditable compensation. The District's contractually required contribution rate for the calendar year ended December 31, 2020, was 5.26 percent of creditable compensation. Contributions to the OPEB plan from the District were $17,980 for the period ended December 31, 2021 and $14,805 for the year ended December 31, 2020.

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

At December 31, 2021, the District reported a liability of $178,312 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 using standard roll-forward techniques. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participants, actuarially determined. At June 30, 2021, the District's proportion was 0.009314 percent, which was an increase of .000271 percent from its proportion measured as of June 30, 2020.

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LARUE COUNTY WATER DISTRICT NO.1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

For the years ended December 31, 2021 and 2020, the District recognized OPEB expense of $17,980 and $14,805. At December 31, 2021 and 2020, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 28,040	$ 53,238
Changes in actuarial assumptions	47,274	166
Difference between projected and actual investment earnings	8,984	36,878
Changes in proportionate and proportionate share of contributions	3,525	40,383
	$ 87,823	$ 130,665

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 36,484	$ 36,512
Changes in actuarial assumptions	37,982	231
Difference between projected and actual investment earnings	11,713	4,456
Changes in proportionate and proportionate share of contributions	-	54,244
	$ 86,179	$ 95,443

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NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

Actuarial assumptions

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

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% to 10.30%, including inflation
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Municipal Bond Index Rate	1.92%
Discount Rate	5.20%

The mortality table used for active members is PUB-2010 General Mortality Table projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the PUB-2010 Disabled Mortality Table projected with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

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

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	21.75%	5.70%
Non- U.S. Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/ High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.20% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 1.92%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the ACFR.

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

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate
The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.20%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.20%) or 1-percentage-point higher (6.20%) than the current rate:
d

	1% Decrease (4.20%)	Current Discount Rate (5.20%)	1% Increase (6.20%)
District's proportionate share of the net OPEB liablility	$ 244,821	$ 178,312	$ 123,730

Sensitivity Of The District's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Healthcare Cost Trend Rates
The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liablility	$ 128,363	$ 178,312	$ 238,601

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

NOTE 8 - MAJOR SUPPLIERS

The District purchases water for resale from approximately six suppliers with Hodgenville Waterworks, Bardstown Water District and Green River Valley Water District accounting for approximately ninety percent of the water supplied. Inability to obtain water from any of these suppliers could have a materially adverse effect on the District.

NOTE 9 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2021 and 2020:

Source	2021	2020
Tap fees	$ 80,163	$ 55,859

(Continued next page)

NOTE 10 – RISK MANAGEMENT

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

NOTE 11 – ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

The District is subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulating entities. Accordingly, the District records these future economic benefits and obligations as regulatory assets and regulatory liabilities.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
2. The regulated rates must be designed to recover the specific entities cost of providing the regulated services;
3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that the rates set at levels that will recover the entities' cost can be charged to and collected from customers.

Based on the District's management evaluation of the three criteria discussed above in relation to its operations, and the effects of competition on its ability to recover its costs, the District believes that GASB Statement No. 62 continues to apply.

NOTE 12 – CONSTRUCTION LOAN

The District obtained a construction loan through Kentucky Rural Water Finance Corporation at an annualized interest rate of 2.7% beginning in 2020. The total amount borrowed was $2,207,802 which was paid off with the issuance of the 2020 Water Revenue Bonds.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

The District has construction commitments for ongoing projects.

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

REQUIRED SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1

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

December 31, 2021

Last 10 Years *

	2021	2020	2019
Proportion of the net pension liability	0.009316%	0.009405%	0.009461%
Proportionate share of the net pension liability	$ 593,968	$ 693,744	$ 665,396
Covered payroll	$ 296,100	$ 281,829	$ 242,312
Proportionate share of the net pension liability as percentage of covered payroll	200.60%	246.16%	274.60%
Plan fiduciary net position as a percentage of the total pension liability	57.33%	47.81%	50.45%

	2018	2017	2016	2015
Proportion of the net pension liability	0.012219%	0.013774%	0.012709%	0.012228%
Proportionate share of the net pension liability	$ 744,174	$ 806,235	$ 625,744	$ 525,737
Covered payroll	$ 327,296	$ 344,813	$ 317,292	$ 302,077
Proportionate share of the net pension liability as percentage of covered payroll	227.37%	233.8%	197.2%	174.0%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	59.97%

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

LARUE COUNTY WATER DISTRICT NO. 1

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

December 31, 2021

Last 10 Years *

	2021	2020
Proportion of the net OPEB liability	0.009314%	0.009043%
Proportionate share of the net OPEB liability	$ 178,312	$ 218,361
Covered payroll	$ 296,100	$ 281,829
Proportionate share of the net OPEB liability as percentage of covered payroll	60.2%	77.5%
Plan fiduciary net position as a percentage of the total OPEB liability	62.91%	51.67%

	2019	2018
Proportion of the net OPEB liability	0.945900%	0.012218%
Proportionate share of the net OPEB liability	$ 159,096	$ 216,928
Covered payroll	$ 242,312	$ 327,296
Proportionate share of the net OPEB liability as percentage of covered payroll	65.7%	66.3%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%

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

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

December 31, 2021

Last 10 Years *

	2021	2020	2019
Contractually required contribution (actuarially determined)	$ 65,854	$ 57,499	$ 51,786
Contribution in relation to the actuarially determined contributions	65,854	57,499	51,786
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 311,073	$ 296,100	$ 290,560
Contributions as a percentage of covered payroll	21.17%	19.30%	17.82%

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 52,128	$ 46,106	$ 38,490	$ 29,948
Contribution in relation to the actuarially determined contributions	52,128	46,106	38,490	29,948
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 329,796	$ 324,007	$ 290,717	$ 282,008
Contributions as a percentage of covered payroll	15.81%	14.23%	13.24%	10.62%

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

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

December 31, 2021

Last 10 Years *

	2021	2020
Contractually required contribution (actuarially determined)	$ 17,980	$ 14,805
Contribution in relation to the actuarially determined contributions	17,980	14,805
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$ 311,073	$ 296,100
Contributions as a percentage of covered payroll	5.78%	5.00%

	2019	2018
Contractually required contribution (actuarially determined)	$ 14,530	$ 16,475
Contribution in relation to the actuarially determined contributions	14,530	16,475
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$ 290,560	$ 329,796
Contributions as a percentage of covered payroll	5.00%	5.00%

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

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2021

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2021.

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

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

2016 and 2017 – No changes.

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

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

2020 and 2021 – No changes.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2021

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 through 2021

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

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

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

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

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

SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTS

DECEMBER 31, 2021

	2012 SERIES F NOTE PAYABLE		2020 SERIES REVENUE BONDS	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2022	$ 104,583	$ 73,362	$ 49,000	$ 49,000
2023	109,583	70,188	50,000	48,142
2024	114,583	66,857	50,500	47,267
2025	119,583	63,362	51,500	46,383
2026	124,583	58,340	52,500	45,482
2027	129,583	52,983	53,500	44,563
2028	139,167	47,411	54,500	43,627
2029	107,917	41,427	55,500	42,673
2030	114,167	36,786	56,000	41,702
2031	119,583	31,877	57,000	40,722
2032	120,000	26,735	58,000	39,725
2033	124,583	22,537	59,000	38,710
2034	129,583	18,127	60,500	37,677
2035	134,583	13,378	61,500	36,618
2036	89,167	8,278	62,500	35,542
2037	39,167	4,792	63,500	34,448
2038	39,586	3,255	64,500	33,337
2039	40,000	1,701	65,500	32,208
2040	3,333	131	67,000	31,062
2041			68,000	29,890
2042			69,000	28,700
2043			70,500	27,492
2044			71,500	26,258
2045			73,000	25,007
2046			74,000	23,730
2047			75,500	22,435
2048			77,000	21,113
2049			78,000	19,766
2050			79,500	18,401
2051			81,000	17,010
2052			82,500	15,592
2053			84,000	14,148
2054			85,500	12,678
2055			87,000	11,182
2056			88,500	9,660
2057			90,000	8,111
2058			91,500	6,536
2059			93,000	4,935
2060			94,500	3,307
2061			94,500	1,653
	$ 1,903,334	$ 641,527	$ 2,800,000	$ 1,116,492

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31, 2021	YEARS ENDED DECEMBER 31, 2020
Retirement expense	$ 83,834	$ 72,304
Insurance - health	30,972	27,738
Auto expense	38,206	22,851
Office supplies and postage	25,044	45,618
Payroll expense	22,437	21,801
Other general and administrative	34,275	30,870
Insurance - general liability	20,320	20,923
Professional fees	26,685	19,790
Insurance - workmens' compensation	16,207	17,533
Commissioners' salaries	10,800	10,800
Regulatory commission expense & other taxes	6,580	5,760
Training	3,880	2,080
	$ 319,240	$ 298,068

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2021

WATER COMMISSIONERS
John Detre – Chairman
Pat Eastridge – Secretary/Treasurer
Bobby Garrison – Member

APPROVING BOND COUNSEL
Rubin & Hays - Louisville, Kentucky

CALENDAR YEAR
January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2021

FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY'S IDENTIFYING NUMBER	PAID TO SUBRECIPIENTS	TOTAL FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE				
Waste and Waste Disposal Systems for Rural Communities	10.760	N/A		$ 2,011,095
TOTAL U.S. DEPT. OF AGRICULTURE				2,011,095
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ -	$ 2,011,095

The accompanying notes are an integral part of this schedule.

LARUE COUNTY WATER DISTRICT NO.1

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2021

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Larue County Water District No. 1 under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Meade County Water District, it is not intended to and does not present the financial position, changes in net position or cash flows of Larue County Water District No. 1.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – INDIRECT COST RATE

The District has elected to not use the 10 percent de minimum indirect cost rate allowed under the Uniform Guidance.

LARUE COUNTY WATER DISTRICT NO.1
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

Section I- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? ___X__yes ______none reported
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ______yes ___X__none reported

Noncompliance material to financial statements noted? ______yes ___X__no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ______yes ___X___no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ______yes __X___none reported

Type of auditor's report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ______yes ___X___no

Identification of major programs:

CFDA Number	Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish Between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? ______yes ___X__no

Section II – Financial Statement Findings

REFERENCE NUMBER 2021-001 PREPARATION OF FINANCIAL STATEMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnote disclosures.

Cause: The District has financial personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Views of Responsible Officials: The District has made strides in this area and is continuously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

REFERENCE NUMBER 2021-002 FINANCIAL STATEMENT PRESENTATION

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Cause: The District has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Views of Responsible Officials: It would be beneficial to have financial training.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

LARUE COUNTY WATER DISTRICT NO. 1
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2021

REFERENCE NUMBER 2020-001 PREPARATION OF FINANCIAL STATEMENTS

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Recommendation: We recommended the District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Current Status: Repeated in the current audit.

REFERENCE NUMBER 2020-002 FINANCIAL STATEMENT PRESENTATION

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Recommendation: We recommended the District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Current Status: Repeated in the current audit.

REFERENCE NUMBER 2020-003 SEGREGATION OF DUTIES

Condition: As part of the audit we noted there were blank checks signed by a commissioner kept at the District. The checks contained only the signature of the commissioner.

Recommendation: We recommended that checks be signed by the commissioner after the date; amount and vendor fields have been completed. Additionally, the invoice that supports the check should be present with the check at the time the commissioner signs the check.

Current Status: This was not repeated in the current audit.

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Heartland CPAs and Advisors PLLC

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

Board of Commissioners
Larue County Water District No. 1
Buffalo, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Larue County Water District No. 1, as of and for the year ended December 31, 2021, and have issued our report thereon dated September 26, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Larue County Water District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Larue County Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Larue County Water District No. 1'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 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 by 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 2021-001 and 2021-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Larue County Water District No. 1's financial statements are free of material misstatement, we performed test 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*.

Larue County Water District No.1's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Larue County Water District No. 1's responses to the findings identified in our audit described in the accompanying schedule of findings and questioned costs. Larue County Water District No. 1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
September 26, 2022

HCA
Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

Larue County Water District No. 1
Buffalo, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Larue County Water District No. 1's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Larue County Water District No. 1's major federal programs for the year ended December 31, 2021. Larue County Water District No. 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Larue County Water District No. 1 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Larue County Water District No. 1 and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Larue County Water District No. 1's compliance with the compliance requirements referred to above.

310 RING ROAD, P.O. BOX 622 / ELIZABETHTOWN, KY 42702-0622 / PHONE 270-769-6371 / FAX 270-765-7934
713 MCDOWELL BLVD. / BARDSTOWN, KY 40004 / PHONE 502-348-1433 / FAX 502-349-6365

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Larue County Water District No. 1's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Larue County Water District No. 1 s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Larue County Water District No. 1's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Larue County Water District No. 1's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Larue County Water District No. 1's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Larue County Water District No. 1's internal control over compliance. Accordingly, no such opinion is expressed.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
September 26, 2022