NORTH MERCER WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2022

KERBAUGH, RODES & BUTLER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

DANVILLE, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

Chairman and Commissioners
North Mercer Water District
Salvisa, KY 40372

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the North Mercer Water District (the District) as of and for the year ended December 31, 2022, 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 financial position of the District, as of December 31, 2022, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 and the historical pension and OPEB information on pages 27 through 32 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

We have previously audited the District's 2021 financial statements, and we expressed an unmodified opinion on the respective financial statements of the business-type activities in our report dated May 26, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 30, 2023

NORTH MERCER WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022

The management of North Mercer Water District (the District) presents this narrative to help our readers review the accompanying annual financial statements for the year ended December 31, 2022. We have prepared this overview and analysis of the District's financial activities to add additional information to the financial schedules and the note disclosures. Our analysis will examine the financial highlights for this fiscal year and help explain the format for our readers.

Financial Highlights

- As of December 31, 2022, the District's assets (page 8) exceeded liabilities by $3,849,703. This amount includes $3,704,497 of resources that are invested in capital assets, net of related debt. $145,206 of these resources are unrestricted and are available to fund the District's outstanding obligations and future programs.
- Unrestricted cash and cash equivalents (page 7) as of December 31, 2022, were $510,442 and current liabilities payable from unrestricted resources (i.e., excluding principal and interest on long term debt) were $457,819.
- Net position (equity) increased by $196,138 (page 9). It should be noted that this increase includes depreciation expense of $466,529, a non-cash expense. The water loss percentage for the year was approximately 18.91% which represents a decrease compared to the previous year water loss percentage of 23.86%.
- The District's total debt increased $2,413,232 for the year ended December 31, 2022. The increase was the result of water revenue bonds series 2022 issued in the amount of $3,400,000 for the waterline replacement project (see Note 13) which paid off the interim financing loan of $2,422,067, and partially offset by scheduled principal payments of $180,000 and the amortization of the Series 2016D bond premium of $2,328.
- The District's net capital assets increased $1,949,431 for the year ended December 31, 2022. The increase was primarily the result of construction for the waterline replacement project of $2,280,910.

Overview of the Financial Statements

This discussion and analysis is intended to introduce the District's financial statements. Basic financial statements include two major sections: 1) government-wide financial statements, and 2) notes to the financial statements.

The North Mercer Water District is a special-purpose governmental entity. It utilizes the accrual basis of accounting applicable to all *proprietary fund types.* Revenues are recognized when earned regardless of when received and expenses are recognized when incurred regardless of when paid.

Notes to the Financial Statements
Notes provide additional information that is essential to a full understanding of the information included in the financial statements. Notes provide additional details about the balances and transactions in the District's financial statements and are presented on pages 14 through 26.

Government-wide Financial Analysis

Net position (equity) may serve over time as a useful indicator of a government's financial position. 96% of the District's net position reflects its investment in capital assets (e.g., distribution system, equipment, etc.), less any related debt used to acquire those assets that is still 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 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. 4% of the District's net position is unrestricted.

The first statement in the government-wide statements is the Statement of Net Position. The following table summarizes the Statement of Net Position (pages 7-8).

	2022	2021
Current and other assets	$ 2,418,816	$ 1,724,797
Capital assets	12,348,185	10,398,754
Total Assets	14,767,001	12,123,551
Deferred outflows of resources	611,677	555,432
Long-term debt outstanding	8,643,688	6,230,456
Net pension liability	1,484,189	1,327,183
Net OPEB liability	405,103	398,416
Other liabilities	595,184	619,648
Total liabilities	11,128,164	8,575,703
Deferred inflows of resources	400,811	449,715
Net Position:		
Net investment in capital assets	3,704,497	4,168,298
Unrestricted	145,206	(514,733)
Total net position	$ 3,849,703	$ 3,653,565

The second statement in the government-wide statements is the Statement of Revenues, Expenses, and Changes in Net Position. The following table outlines the major components of this statement.

	2022	2021
Revenues:		
Charges for services	$ 2,968,981	$ 2,588,668
Grants and contributions	222,997	972,203
Rental income	6,000	6,000
Interest earnings	28,745	8,457
Total revenues	3,226,723	3,575,328
Expenses:		
Operating expenses, excluding depreciation	2,268,352	2,195,499
Depreciation	466,529	461,658
Interest and amortization	295,704	206,850
Total expenses	3,030,585	2,864,007
Increase (decrease) in net position	$ 196,138	$ 711,321

Capital Asset and Debt Administration

The District invests substantial resources in capital assets that support the services provided to its customers. All of the District's outstanding debt has been used to acquire or construct capital assets.

Capital Assets

The District's capital assets, net of accumulated depreciation are summarized below:

	2022	2021
Land	$ 48,802	$ 48,802
Buildings, structures & improvements	160,581	168,649
Equipment, vehicles, furniture, & fixtures	185,373	171,679
Transmission system	5,790,928	6,095,643
Distribution system	788,220	830,264
Water meters	1,136,841	1,125,447
Hydrants	3,313	3,853
Pump station equipment	7,800	9,000
Construction in progress	4,226,327	1,945,417
Total, net of depreciation	$ 12,348,185	$ 10,398,754

Long Term Debt

The principal outstanding on the District's long-term debt is summarized in the following table.

	2022	2021
Water revenue refunding bonds	$ 2,190,000	$ 2,370,000
Water revenue bonds	6,405,000	3,005,000
Interim Financing	-	804,440
Bond premium, Series 2016D	48,688	51,016
Total	$ 8,643,688	$ 6,230,456

The District's outstanding debt increased $2,413,232 for the year ended December 31, 2022. The increase was the result of issuing the water revenue bonds series 2022 in the amount of $3,400,000 and partially offset by scheduled principal payments.

Economic Factors for Next Year

As stated previously, the District has struggled at times getting its water losses under control. Going forward, the District will continue to monitor its water losses and take the necessary action to keep them at an acceptable level.

The most significant economic factor identified by the District's management that will have a direct adverse effect on the financial condition of the District next year and beyond are the continued increases in the CERS employer contribution rates mandated by the state related to the employee pension and OPEB plans. The rates are expected to continue to increase at a significant pace and will make it necessary for management to allocate the necessary funds to meet these higher retirement costs in the future. The funded status of the CERS plan will have a significant impact on the required contributions and the District's proportionate share of the net pension and OPEB liabilities. House Bill 362 passed during the 2018 legislative session caps the CERS employer contribution rate increases to 12 percent per year over the prior fiscal year through 2028.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office, P.O. Box 79, Salvisa, KY 40372, telephone number (859) 865-2292.

NORTH MERCER WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2021)

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 510,442	$ 382,710
Cash and cash equivalents - restricted	1,193,307	589,004
Accounts receivable (net of allowance)	366,849	368,033
Grant receivable	-	9,000
Inventory	137,156	137,156
Prepaid expenses	39,253	61,946
Total Current Assets	2,247,007	1,547,849
Non-Current Assets:		
Unamortized bond issuance costs	76,769	81,908
Investments	95,040	95,040
Capital assets, net	12,348,185	10,398,754
Total Non-Current Assets	12,519,994	10,575,702
Total Assets	14,767,001	12,123,551
Deferred outflows of resources	611,677	555,432
Total Assets and Deferred Outflows	$ 15,378,678	$ 12,678,983

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

NORTH MERCER WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2021)

	2022	2021
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 81,142	$ 84,958
Accounts payable-contractors	149,107	271,083
Accrued liabilities	60,227	43,009
Customer deposits	167,343	156,557
Accrued interest payable	104,198	40,109
Current portion of long-term liabilities	309,000	236,000
Total Current Liabilities	871,017	831,716
Non-Current Liabilities:		
Accrued compensated absences	33,167	23,932
Net pension liability	1,484,189	1,327,183
Net OPEB liability	405,103	398,416
Water revenue bonds	8,334,688	5,994,456
Total Non-Current Liabilities	10,257,147	7,743,987
Total Liabilities	11,128,164	8,575,703
Deferred inflows of resources	400,811	449,715
NET POSITION		
Net investment in capital assets	3,704,497	4,168,298
Unrestricted	145,206	(514,733)
Total Net Position	3,849,703	3,653,565
Total Liabilities, Deferred Inflows and Net Position	$ 15,378,678	$ 12,678,983

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

NORTH MERCER WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	2022	2021
Operating Revenue:		
Water sales	$ 2,891,183	$ 2,505,191
Miscellaneous	77,798	83,477
Total Operating Revenue	2,968,981	2,588,668
Operating Expenses:		
Source of supply	931,374	931,570
Transmission and distribution	711,611	666,725
Customer accounts	212,002	204,636
General and administrative	359,871	343,748
Total Operating Expenses Before Taxes and Depreciation	2,214,858	2,146,679
Taxes	53,494	48,820
Depreciation	466,529	461,658
Total Operating Expenses	2,734,881	2,657,157
Operating Income	234,100	(68,489)
Non-Operating Revenue (Expenses):		
Rent	6,000	6,000
Interest income	28,745	8,457
Interest expense	(292,893)	(201,711)
Bond issuance costs	(2,811)	(5,139)
Total Non-Operating Revenue (Expenses)	(260,959)	(192,393)
Change in Net Position Before Capital Contributions	(26,859)	(260,882)
Capital contributions	222,997	972,203
Change in Net Position	196,138	711,321
Net Position - Beginning of Year	3,653,565	2,942,244
Net Position - End of Year	$ 3,849,703	$ 3,653,565

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

NORTH MERCER WATER DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	Tap Fees	Contributions In Aid Of Construction	Retained Deficit	Total
Balance at January 1, 2021	$ 2,270,164	$ 4,834,335	$ (4,162,255)	$ 2,942,244
Capital contributions-government	872,403	-	-	872,403
Tap fees	99,800	-	-	99,800
2021 change in net position before capital contributions	-	-	(260,882)	(260,882)
Balance at December 31, 2021	3,242,367	4,834,335	(4,423,137)	3,653,565
Capital contributions-government grants	127,597	-	-	127,597
Tap fees	95,400	-	-	95,400
2022 change in net position before capital contributions	-	-	(26,859)	(26,859)
Balance at December 31, 2022	$ 3,465,364	$ 4,834,335	$ (4,449,996)	$ 3,849,703

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

NORTH MERCER WATER DISTRICT
STATEMENT OF OPERATING EXPENSES (BEFORE TAXES & DEPRECIATION)
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	Source of Supply	Transmission & Distribution-Operating	Transmission & Distribution-Maintenance	Customer Accounts	Administrative & General	Totals 2022	Totals 2021
Salaries & Wages-Employees	$ -	$ 31,964	$ 325,345	$ 105,834	$ 128,294	$ 591,437	$ 527,434
Salaries & Wages-Directors	-	-	-	-	29,602	29,602	24,301
Employee Pension & Benefits	-	19,767	201,195	65,448	79,337	365,747	407,256
Purchased Water	931,374	-	-	-	-	931,374	931,570
Purchased Power	-	29,385	-	-	6,075	35,460	31,946
Materials & Supplies	-	4,553	5,768	22,243	7,787	40,351	46,104
Contractual Services-Accounting	-	-	-	-	11,300	11,300	8,825
Contractual Services-Legal	-	-	-	-	6,000	6,000	5,000
Contractual Services-Water Testing	-	6,045	-	-	-	6,045	4,390
Contractual Services-Other	-	-	40,028	-	-	40,028	33,975
Transportation Expenses	-	37,547	-	-	5,209	42,756	31,389
Insurance-General Liability	-	-	-	-	29,282	29,282	28,094
Insurance-Worker's Compensation	-	367	3,736	1,215	1,474	6,792	7,815
Bad Debts	-	-	-	17,262	-	17,262	8,012
Miscellaneous Expenses	-	-	5,911	-	55,511	61,422	50,568
Total Operating Expenses*	$ 931,374	$ 129,628	$ 581,983	$ 212,002	$ 359,871	$ 2,214,858	$ 2,146,679

*Before taxes and depreciation

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

NORTH MERCER WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	2022	2021
Cash Flows From Operating Activities:		
Receipts from customers	$ 2,980,951	$ 2,513,776
Payments to suppliers	(1,262,689)	(1,295,100)
Payments for employee services & related benefits	(901,789)	(825,713)
Net Cash Provided by (Used in) Operating Activities	816,473	392,963
Cash Flows From Non-Capital Financing Activities:		
Interest paid on customer deposits	(195)	(184)
Net Cash Provided by (Used in) Non-Capital Financing Activities	(195)	(184)
Cash Flows From Capital and Related Financing Activities:		
Proceeds from tapping fees	95,400	99,800
Proceeds from federal grant	136,597	863,403
Acquisition of capital assets	(2,537,936)	(1,656,439)
Rent	6,000	6,000
Principal paid on bonded debt	(180,000)	(280,500)
Proceeds from bonded debt	3,400,000	-
Proceeds from interim financing	1,617,627	804,440
Principal paid on interim financing	(2,422,067)	-
Interest paid on debt	(228,609)	(259,746)
Net Cash Used in Financing Activities	(112,988)	(423,042)
Cash Flows From Investing Activities:		
Interest income	28,745	8,457
Net Cash Provided by (Used in) Investing Activities	28,745	8,457
Net Increase (Decrease) in Cash & Cash Equivalents	732,035	(21,806)
Cash & Cash Equivalents - Beginning of Year	971,714	993,520
Cash & Cash Equivalents - End of Year	$ 1,703,749	$ 971,714

Continued

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

NORTH MERCER WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)
Continued

	2022	2021
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	$ 234,100	$ (68,489)
Depreciation	466,529	461,658
Decrease (increase) in accounts receivable	1,184	(86,826)
Decrease (increase) in inventory	-	(60,805)
Decrease (increase) in prepaid expenses	22,693	(3,588)
Increase (decrease) in accounts payable	(3,816)	5,801
Increase (decrease) in customer deposits	10,786	11,934
Increase (decrease) in accrued compensated absences	26,453	7,984
Increase (decrease) in net pension obligation and related deferrals	58,544	125,294
Net Cash Provided by (Used in) Operating Activities	$ 816,473	$ 392,963

	2022	2021
Schedule of cash and cash equivalents:		
Beginning of period:		
Unrestricted cash and cash equivalents	$ 382,710	$ 274,350
Restricted cash and cash equivalents	589,004	719,170
Total cash and cash equivalents	$ 971,714	$ 993,520
End of period:		
Unrestricted cash and cash equivalents	$ 510,442	$ 382,710
Restricted cash and cash equivalents	1,193,307	589,004
Total cash and cash equivalents	$ 1,703,749	$ 971,714

	2022	2021
Non-Cash Non-Capital Financing and Investing Activities:		
Amortization of bond issuance costs	$ 2,811	$ 5,139
Amortization of bond premium	$ 2,328	$ 2,328
Non-Cash Capital and Related Financing Activities:		
Capital assets included in accounts payable	$ 149,107	$ 271,083

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The North Mercer Water District (the District) was established in 1959 under KRS 74.010 to provide water service for public health, convenience, fire protection, and comfort to the residents of northern Mercer County, Kentucky. Several expansions of the system have taken place in Mercer, Anderson, Boyle, and Washington Counties since the creation of the District. The Board of Commissioners consists of three members, all residents of Mercer County, appointed by the county judge.

North Mercer Water District has been appointed by the Mercer County Fiscal Court as an independent unit. The District selects management, staff, sets user charges, establishes budgets and controls all aspects of its daily activities.

The commissioners appoint the Chair(person) from existing members. The Chair responsibilities are to preside at all meetings; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission or business organization and exercise supervision over the business of the District, its officers and employees.

The accompanying statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Position

Cash and Investments
For purposes of the statement of cash flows, the District considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased, to be cash equivalents.

Restricted Assets
Restricted assets represent cash and cash equivalents whose use is limited by legal requirements.

Accounts Receivable
All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles. At December 31, 2022, the allowance for uncollectibles was $48,697.

Inventory
Inventory consists of materials and supplies on hand at the end of the year and is stated at the lower of cost (average cost method) or market.

Utility Plant
Utility plant is recorded at cost for items purchased or constructed and at estimated fair market value on the date donated for contributed items. The capitalization threshold for utility plant is $500. Depreciation is computed by the straight-line method based on the estimated useful lives of related asset classifications. It is the District's policy to depreciate assets one-half year in the year of acquisition and one-half year in the year of disposal or retirement.

Construction in Progress
Construction work in progress represents costs accumulated for the replacement of sections of the District's transmission and distribution systems, plant expansions and rehabilitations, and other projects that were not completed at year end.

Compensated Absences
It is the District's policy to permit employees to accumulate earned but unused vacation benefits. Employees may, depending on level and length of service, be paid for various amounts of their total accrued leave upon termination or retirement. The District accrues a liability for leave hours that meet the criteria for payment at the eligible employees' current rates of pay plus retirement benefits and employment taxes. The accrual for compensated absences at December 31, 2022 was $33,167.

Long-Term Obligations
Long-term debt and other long-term obligations are reported as liabilities on the District's statement of net position.

Bond Issuance Costs
The Government Accounting Standards Board (GASB) issued GASB Statement #65, effective for fiscal years beginning after December 15, 2012. GASB Statement #65 changed the method of accounting for debt issuance costs. Prior to the issuance of GASB Statement #65, debt issuance costs were recognized in a systematic manner over the life of the related debt. However, GASB Statement #65 states that debt issuance costs (with the exception of prepaid insurance costs) should be recognized in the year they are incurred. Furthermore, regulated utilities are allowed to apply certain criteria outlined in GASB Statement #62 to determine if they can continue to amortize debt issuance costs. If the criteria are met, then debt issuance costs would continue to be amortized over the life of the related debt. The District has reviewed the criteria contained in GASB Statement #62 and has determined that it remains appropriate to amortize its bond issuance costs consistent with how it has treated them in prior years.

Net Position

Net position represents the differences between assets and liabilities in the statement of net position.

1. Net investment in capital assets represents net position invested in capital assets reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.
2. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governmental entities.

The District has determined that when both restricted and unrestricted funds are available, that they will use the restricted resources first.

Budget

In accordance with the District's enabling legislation, the Commission holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlays. The budget is adopted on a basis consistent with generally accepted accounting principles. It is monitored at various levels of classification detail within the enterprise fund.

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 the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates.

Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through March 30, 2023, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2022, have not been evaluated by the District.

NOTE 2. DEPOSITS AND INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk.

Deposits

At year-end, the carrying amount of the District's deposits was $1,703,749 and the bank balance was $1,953,622. The bank balance covered by federal depository insurance was $913,058. Deposits of $1,005,032 were classified as Category 2, collateralized, as defined by GASB (securities are pledged with the financial institution's trust department or agent in the District's name) and $35,532 of deposits were uninsured and uncollateralized.

Investments

Category 1	Insured or registered, with securities held by the District or its agent in the District’s name.
Category 2	Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the District’s name.
Category 3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District’s name.

The District has investments of $95,040 in bank certificates of deposit. The certificates of deposit are covered by federal depository insurance.

NOTE 3. RESTRICTED ASSETS

Under the District's bond agreements, the District is required to transfer to the Debt Service Account on or before the last day of each month the following amounts:

- Interest-deposit the sum together with the balance in this account an amount equal to the interest on all outstanding bonds accrued and unpaid and to accrue to the end of the then current calendar month.
- Principal-deposit the sum together with the balance in this account an amount equal to (a) the principal amount of all outstanding bonds other than term bonds due and unpaid, (b) that portion of the principal amount of the bonds next due which would have accrued on such bonds other than term bonds next due during the current calendar month if such principal amount thereof were deemed to accrue monthly in equal installments from a date one year preceding the due date of such bonds next due and (c) the portion of the principal amount of the bonds next due which shall have accrued on such basis in prior months.
- Depreciation-deposit a monthly sum until the depreciation account reaches the balance required by bond agreements.

NOTE 4. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and Land Rights	$ 48,802	$ -	$ -	$ 48,802
Total capital assets not being depreciated	48,802	-	-	48,802
Capital assets, being depreciated:				
Structures and improvements	348,401	-	-	348,401
Other plant	958,336	46,200	(60,800)	943,736
Equipment	48,174	-	-	48,174
Water system	17,007,071	88,850	-	17,095,921
Construction in Process	1,945,417	2,280,910	-	4,226,327
Total capital assets being depreciated	20,307,399	2,415,960	(60,800)	22,662,559
Less accumulated depreciation for:				
Structures and improvements	(179,750)	(8,068)	-	(187,818)
Other plant	(788,114)	(29,596)	60,800	(756,910)
Equipment	(46,717)	(709)	-	(47,426)
Water system	(8,942,866)	(428,156)	-	(9,371,022)
Total accumulated depreciation	(9,957,447)	(466,529)	60,800	(10,363,176)
Capital Assets, Net	$ 10,398,754	$ 1,949,431	$ -	$ 12,348,185

NOTE 5. LONG-TERM DEBT

Waterworks Revenue Bonds. Series 2011A

The District authorized the issuance of $1,547,000 in "Waterworks Revenue Bonds" by resolution to finance the construction of additions and improvements to the system. On January 19, 2012, the U.S. Department of Agriculture Rural Development purchased the entire issue at 3.75% interest rate. The bonds are payable and secured by a pledge of revenues derived from the operation of the system.

Waterworks Revenue Bonds. Series 2011

The District authorized the issuance of $1,874,000 in "Waterworks Revenue Bonds" by resolution to finance the construction of additions and improvements to the system. On January 19, 2012, the U.S. Department of Agriculture Rural Development purchased the entire issue at 3.75% interest rate. The bonds are payable and secured by a pledge of revenues derived from the operation of the system.

Waterworks Refunding Revenue Loan, Series 2010C

On June 10, 2010, the District issued Waterworks Refunding Revenue Loan, Series 2010C in the amount of $1,790,000 with an interest rate of 2.2%-4.325% for the purpose of refunding and retiring the outstanding Waterworks Revenue Bonds of 1992 and the Waterworks Refunding Revenue Bonds Series 1996, with interest rates of 5.375%-5.5%. The Waterworks Refunding Revenue Loan, Series 2010C were issued at a par amount of $1,790,000 and, after paying issuance cost and discount of $63,590, the net proceeds were $1,726,410. The refunding met the requirements of an in-substance debt defeasance and the Revenue Bonds were removed from the District's long-term debt.

As a result of the refunding, the District reduced its total debt service requirements by $488,774, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $327,270.

Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Bonds, Series 2016D

On November 30, 2016, the District issued Kentucky Rural Water Finance Corporation (KRWFC) Public Projects Refunding and Improvement Bonds, Series 2016D (2016D Bonds) in the amount of $1,845,000 with fixed interest rates ranging from 3.6%-5.1% for the purpose of refunding and retiring the outstanding Waterworks Revenue Bonds of 1994, Waterworks Revenue Bonds of 1996, and Waterworks Revenue Bonds of 2003, with interest rates of 4.375%-5.5%. The 2016D Bonds were issued at a premium of $62,849 and after paying issuance cost, the net proceeds were $1,907,849. The refunding met the requirements of an in-substance debt defeasance and the Revenue Bonds were removed from the District's long-term debt.

As a result of the refunding, the District reduced its total debt service requirements by $203,874, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $145,208.

Rural Water Finance Agency

On November 9, 2021, the District entered into a loan agreement with the Rural Water Finance Agency (RWFA) in an amount not to exceed $3,400,000 to serve as interim financing to fund a portion of the water line replacement project discussed in Note 13. The Loan bears interest at 1.80% and matures April 1, 2023. The loan was refunded with permanent financing from Rural Development in September 2022.

Waterworks Revenue Bonds. Series 2022

The District authorized the issuance of $3,400,000 in "Waterworks Revenue Bonds" by resolution to finance the construction of additions and improvements to the system. On September 6, 2022, the U.S. Department of Agriculture Rural Development purchased the entire issue at 1.875% interest rate. The bonds are payable and secured by a pledge of revenues derived from the operation of the system.

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

	Beginning Balance	Increases	Reductions	Ending Balance	Due Within One Year
Waterworks refunding loan series 2010C	$ 735,000	$ -	$ (120,000)	$ 615,000	$ 130,000
Water revenue bonds series 2011	1,662,000	-	-	1,662,000	29,000
Water revenue bonds series 2011A	1,343,000	-	-	1,343,000	27,000
KRWFC Refunding Bonds, Series 2016D	1,635,000	-	(60,000)	1,575,000	65,000
RWFA Interim Financing	804,440	1,617,627	(2,422,067)	-	-
Water revenue bonds series 2022	-	3,400,000	-	3,400,000	58,000
Bonds payable total	6,179,440	5,017,627	(2,602,067)	8,595,000	309,000
Bond Premium, Series 2016D	51,016	-	(2,328)	48,688	-
Long-term debt total	$ 6,230,456	$ 5,017,627	$ (2,604,395)	$ 8,643,688	$ 309,000

The future maturity amounts and related interest costs for all long-term debt are as follows:

Year Ending December 31,	Bonds Principal	Bonds Interest
2023	$ 309,000	$ 238,900
2024	227,500	227,644
2025	235,500	220,070
2026	249,000	211,670
2027	253,000	202,796
2028-32	1,440,500	875,944
2033-37	1,205,500	649,475
2038-42	1,271,500	464,433
2043-47	1,184,000	273,994
2048-52	1,122,000	118,865
2053-57	525,000	83,577
2058-62	572,500	32,483
Total	$ 8,595,000	$ 3,599,851

NOTE 6. WATER RATES

The overall water rate, effective August 18, 2021, for the year ending December 31, 2022 was $20.00 per thousand gallons for the first 1,000 gallons of water consumed and various amounts per thousand gallons in excess of 1,000 gallons. The minimum water bill, which includes 1,000 gallons of water consumption, is $20.00 per month.

The number of customer accounts billed during December 2022 was 4,751.

NOTE 7. OTHER OPERATING REVENUES

Other miscellaneous operating revenues consisted of the following for the year ended December 31, 2022:

Penalty Charges	$ 30,839
Service Charges	21,853
Miscellaneous	25,106
Total	$ 77,798

NOTE 8. RISK RETENTION

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risks of loss. There were not significant reductions in insurance coverage in 2022 from coverage in the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no presented claim liabilities at December 31, 2022.

NOTE 9. RETIREMENT

The District is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

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

Contributions – For the year ended December 31, 2022, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% of each employee’s wages from January 1, 2022 to June 30, 2022, and 26.79% of each employee’s wages from July 1, 2022 to December 31, 2022, which is equal to the actuarially determined rate set by the Board. For the year ended December 31, 2021, participating employers contributed 24.06% of each employee’s wages from January 1, 2021 to June 30, 2021, and 26.95% of each employee’s wages from July 1, 2021 to December 31, 2021, which is equal to the actuarially determined rate set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2015, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed $157,744 for the year ended December 31, 2022, or 100% of the required contribution. The contribution was allocated $137,783 to the CERS pension fund and $19,961 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2022, the District reported a liability of $1,484,189 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 that date and rolled forward to June 30, 2022. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2022, the District's proportion was .020531 percent, which was equal to its proportion measured as of June 30, 2022. At December 31, 2021, the District's proportion was .020816 percent, which was equal to its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized pension expense of $12,367. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 1,587	$ 13,217
Change of assumptions	-	-
Net differences between projected and actual earnings on Plan investments	201,954	163,904
Changes in proportion and differences between District contributions and proportionate share of contributions	38,405	10,202
District contributions subsequent to the measurement date	137,783	-
Total	$ 379,729	$ 187,323

The $137,783 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2023	$ 27,777
2024	(2,846)
2025	(12,472)
2026	42,164

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

Inflation	2.30%
Payroll growth	2.00%
Salary increases	3.30 to 10.30% varied by service
Investment rate of return	6.25%, net of Plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Special Credit/High Yield	10.00%	2.28%
Core Bonds	10.00%	0.28%
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Cash	0.00%	-0.91%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate of 6.25% for assumes that the funds receive the required employer contributions each future year. Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis. The discount rate determination does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following 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:

	Discount rate	Nonhazardous
1% decrease	5.25%	1,177,454
Current discount rate	6.25%	1,484,189
1% increase	7.25%	1,855,052

Payable to the Pension Plan – At December 31, 2022, the District reported a payable of $26,023 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2022. The payable includes both the pension and insurance contribution allocation.

NOTE 10. OTHER POSTEMPLOYMENT BENEFIT PLAN

The District is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

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

Contributions – For the year ended December 31, 2022, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% of each employee’s wages from January 1, 2022 to June 30, 2022, and 26.79% of each employee’s wages from July 1, 2022 to December 31, 2022, which is equal to the actuarially determined rate set by the Board. For the year ended December 31, 2021, participating employers contributed 24.06% of each employee’s wages from January 1, 2021 to June 30, 2021, and 26.95% of each employee’s wages from July 1, 2021 to December 31, 2021, which is equal to the actuarially determined rate set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

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

The District contributed $157,744 for the year ended December 31, 2022, or 100% of the required contribution. The contribution was allocated $137,783 to the CERS pension fund and $19,961 to the CERS insurance fund.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2022, the District reported a liability of $405,103 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 that date and rolled forward to June 30, 2022. 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 pension plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2022, the District’s proportion was .020527 percent, which was equal to its proportion measured as of June 30, 2022. At December 31, 2021, the District’s proportion was .020811 percent, which was equal to its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized OPEB expense of $46,177. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 40,777	$ 92,900
Changes of assumptions	64,070	52,793
Net difference between projected and actual earnings on Plan investments	75,434	58,992
Changes in proportion and differences between District contributions and proportionate share of contributions	31,706	8,803
District contributions subsequent to the measurement date	19,961	-
Total	$ 231,948	$ 213,488

The $19,961 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending December 31,	
2023	$ 12,310
2024	7,056
2025	(21,570)
2026	703

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

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30% varied by service
Investment rate of return	6.25%
Healthcare trend rates:	
Pre - 65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	Initial trend starting at 9.00% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Trend Rate – The following presents the District's proportionate share of the net OPEB liability calculated using the health care trend rate described above, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Nonhazardous
1% decrease	301,185
Current healthcare tend rate	405,103
1% increase	529,889

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Special Credit/High Yield	10.00%	2.28%
Core Bonds	10.00%	0.28%
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Cash	0.00%	-0.91%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability was 5.70 percent (5.20 percent in prior year). The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability. Senate Bill 249 passed during the 2020 legislative session reset the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis.

The discount rate uses an expected rate of return of 6.25%, and a municipal bond rate of 3.69%, as reported in the Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The District's proportionate share of the implicit subsidy was $14,606 at December 31, 2022.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.70 percent, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.70 percent) or 1-percentage-point higher (6.70 percent) than the current rate:

	Nonhazardous
1% decrease	541,558
Current discount rate	405,103
1% increase	292,300

Payable to the Pension Plan – At December 31, 2022, the District reported a payable of $26,023 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2022. The payable includes both the pension and insurance contribution allocation.

NOTE 11. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. In prior years, the Internal Revenue Code specified that the plan's assets were the property of the District until paid or made available to participants, subject only on an equal basis to the claims of the Authority's creditors. A 1996 federal law now requires all assets and income of Internal Revenue Code Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries.

Assets of the District's plan are administered by Kentucky Deferred Compensation under contract with the District. The administrator amended the plan as of January 1, 1998, to comply with the new federal law. Consequently, the plan's assets and liabilities are not reflected in the District's financial statements.

NOTE 12. CONTINGENCIES

As of December 31, 2022, the District did not have any pending litigation or potential non-disclosed liabilities.

The North Mercer Water District participates in federal loan programs, which are governed by various rules of the grantor agency. Costs charged to the program are subject to audit and adjustment by the grantor agency; therefore, to the extent that the District has not complied with the rules and regulations governing these programs, refunds of any money received may be required. In the opinion of the District, there are no significant contingent liabilities relating to the compliance with the rules and regulations governing the respective programs.

NOTE 13. PROJECT COMMITMENTS

The District is in the early design and engineering phase of a water line replacement project. The total costs of the project are estimated to be approximately $4,400,000. The funding for the project will be from the following sources:

CDBG Grant	$ 1,000,000
Rural Development Loan	3,400,000
Total Funding	$ 4,400,000

Total costs spent on the project at December 31, 2022, are $4,220,536 and are included in construction in progress on the statement of net position.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Nine Fiscal Years*

	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability	0.020531%	0.020816%	0.019489%	0.017912%	0.018310%	0.016128%	0.017107%	0.016963%	0.016963%
District's proportionate share of the net pension liability (asset)	$ 1,484,189	$ 1,327,183	$ 1,494,790	$ 1,259,759	$ 1,115,135	$ 944,021	$ 842,261	$ 550,383	$ 621,321
District's covered employee payroll	$ 613,627	$ 574,661	$ 543,982	$ 453,207	$ 450,193	$ 437,991	$ 415,444	$ 415,954	$ 389,169
District's share of the net pension liability (asset) as a percentage of its covered payroll	241.87%	230.95%	274.79%	277.97%	247.70%	215.53%	202.74%	132.32%	159.65%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.45%	49.26%	53.30%	55.50%	66.80%	61.22%

* The above schedule will present 10 years of historical data once available.

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF PENSION PLAN CONTRIBUTIONS
Last Ten Fiscal Years

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	$ 137,783	$ 103,958	$ 104,988	$ 87,469	$ 69,128	$ 62,629	$ 51,598	$ 53,034	$ 53,472	$ 46,871
Contributions relative to contractually required employer contribution	137,783	103,958	104,988	87,469	69,128	62,629	51,598	53,034	53,472	46,871
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 613,627	$ 529,157	$ 543,982	$ 453,207	$ 450,193	$ 437,991	$ 415,444	$ 415,954	$ 389,169	$ 371,402
Employer contributions as a percentage of covered-employee payroll	22.45%	19.65%	19.30%	19.30%	15.36%	14.30%	12.42%	12.75%	13.74%	12.62%

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Six Fiscal Years*

	2022	2021	2020	2019	2018	2017
District's proportion of the net OPEB liability	0.020527%	0.020811%	0.019483%	0.017907%	0.018309%	0.016128%
District's proportionate share of the net OPEB liability (asset)	$ 405,103	$ 398,416	$ 470,455	$ 301,188	$ 325,073	$ 324,228
District's covered employee payroll	$ 613,627	$ 529,157	$ 543,982	$ 453,207	$ 450,193	$ 437,991
District's share of the net OPEB liability (asset) as a percentage of its covered payroll	66.02%	75.29%	86.48%	66.46%	72.21%	74.03%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	51.67%	60.44%	64.24%	53.30%

* The above schedule will present 10 years of historical data once available.

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF OPEB CONTRIBUTIONS
Last Six Fiscal Years

	2022	2021	2020	2019	2018	2017
Contractually required employer contribution	$ 19,961	$ 28,384	$ 25,894	$ 21,573	$ 22,417	$ 20,328
Contributions relative to contractually required employer contribution	19,961	28,384	25,894	21,573	22,417	20,328
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 613,627	$ 529,157	$ 543,982	$ 453,207	$ 450,193	$ 437,991
Employer contributions as a percentage of covered-employee payroll	3.25%	5.36%	4.76%	4.76%	4.98%	4.64%

* The above schedule will present 10 years of historical data once available.

Note 1. General Information

Contributions
Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll
The District's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the District's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

Measurement Date
The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

Note 2. Changes of Assumptions (Measurement Date)

June 30, 2022 –OPEB Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The single discount rate used to calculate the OPEB liability was increased from 5.20% to 5.70% for non-hazardous and from 5.05% to 5.61% for hazardous.
- The healthcare trend rate starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65. The healthcare trend rate starting at 9.00% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for post-65.

June 30, 2021 –OPEB Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The single discount rate used to calculate the OPEB liability was decreased from 5.34% to 5.20% for non-hazardous and from 5.30% to 5.05% for hazardous.
- The healthcare trend rate 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 for pre-65. The healthcare trend rate 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 for post-65.

June 30, 2020 –OPEB Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The healthcare trend rate starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for pre-65. The healthcare trend rate starting at 2.90% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for post-65.

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous
The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average.

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for either pension or OPEB.

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

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016, for either pension or OPEB.

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

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the 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.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

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

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

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

COMPLIANCE SECTION

NORTH MERCER WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Grant/Program Title	Federal CFDA Number	Contract Number	Expenditures	Passed Through To Subrecipients
A. U.S. Department of Agriculture Rural Development:				
Direct:				
RUS Loan/Grant	10.760	20-019	$ 2,265,570	$ -
B. U.S. Department of Housing and Urban Development:				
Passed through Commonwealth of Kentucky,				
Department for Local Government				
Community Development Block Grant	14.228	20-019	127,597	-
			$ 2,393,167	$ -

See accompanying notes to schedule of expenditures of federal awards.

NORTH MERCER WATER DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (schedule) includes the federal award activity of the District and is presented on the accrual basis of accounting. 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 operation of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. 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. The District has elected not to use the 10 percent de-minimis indirect cost rate as allowed under the Uniform Guidance.

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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*

Chairman and Commissioners
North Mercer Water District
Salvisa, KY 40372

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the North Mercer Water District (the District) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 30, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 30, 2023

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

Chairman and Commissioners
Salvisa, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the North Mercer Water District's (the District'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 the District's major federal programs for the year ended December 31, 2022. The District'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, the District complied, in all material respects, with the types of 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, 2022.

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 the District 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 the District's compliance with the compliance requirements referred to above.

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 the District'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 the District'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 the District'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 the District'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 the District'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 the District'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.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 30, 2023

NORTH MERCER WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	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)?	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.760	USDA, Rural Development Water & Waste Disposal Systems For Rural Communities Grant and Loan Program

Dollar threshold used to distinguish Between type A and type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	No

NORTH MERCER WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year Audit Findings

No matters were reported.