

OHIO COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

**OHIO COUNTY WATER DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2021**

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Buckles, Travis & Hart, PLLC

Certified Public Accountants

DENNIS R. BUCKLES, CPA

www.graysoncpas.com

BRAD K. TRAVIS, CPA/PFS

ROBIN G. HART, CPA

211 West White Oak Street

Post Office Box 4069

Leitchfield, KY 42755-4069

Phone 270-259-5604

Fax 270-259-5603

INDEPENDENT AUDITORS' REPORT

Commissioners
Ohio County Water District
Hartford, Kentucky

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Ohio County Water District as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7, the schedule of the District's proportionate share of the CERS net

pension liability on page 31, the schedule of the District's contributions to CERS on page 32, the schedule of the District's proportionate share of the net OPEB liability on page 33, the schedule of the District's OPEB contributions on page 34, and the notes to required supplementary information on pages 35-36, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2022, on our consideration of Ohio County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Ohio County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ohio County Water District's internal control over financial reporting and compliance.

Respectfully submitted,

Buckles, Travis & Hart, PLLC

Buckles, Travis & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
August 11, 2022

**OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

As management of the Ohio County Water District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the business-type activities for the fiscal year ended December 31, 2021. The information contained in this Management Discussion and Analysis ("MD&A") should be considered in conjunction with the information contained in the Independent Auditors' Reports, financial statements, and supplementary information.

FINANCIAL HIGHLIGHTS

For the year ending December 31, 2021, total operating and non-operating revenues (including capital contributions) totaled \$5,685,776 and expenses amounted to \$4,858,817 creating an increase in net position of \$826,959. At year end, net position totaled \$17,963,340 of which \$17,050,356 (net of related debt) was invested in capital assets and \$582,061 was restricted for debt service and depreciation/replacement. This left a net surplus amount of \$330,923 of unrestricted assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of MD&A and is intended to serve as an introduction to the financial statements. The financial statements include notes, which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information using accounting methods similar to those used by private-sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis of evaluation of the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as how cash was received, what was cash used for, and what was the change in the cash balance during the reporting period.

**OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

FINANCIAL ANALYSIS OF OHIO COUNTY WATER DISTRICT

**Statement of Net Position-Summary
December 31, 2021**

		2021
Total current assets		\$ 2,220,703
Total noncurrent assets		<u>30,498,056</u>
	Total Assets	32,718,759
	Deferred Outflows of Resources	<u>673,332</u>
Total current liabilities		1,196,128
Total non-current liabilities		<u>13,382,843</u>
	Total Liabilities	14,578,971
	Deferred Inflows of Resources	<u>849,780</u>
Net position		
Net investment in capital assets		17,050,355
Restricted		582,061
Unrestricted		<u>330,924</u>
	Total Net Position	<u><u>\$17,963,340</u></u>

The largest portion of the District's net position is reflected by investment in capital assets, less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to consumers; consequently, these assets are not available for future spending.

Restricted for debt service and depreciation/replacement reserves represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to consumers and creditors.

**OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

**Statement of Operations-Summary
December 31, 2021**

	2021
Total Operating Revenues	\$ 4,516,221
Total Operating Expenses	4,474,444
Net Operating Income	41,777
Total non-operating revenue / (expenses)	602,905
Profit before capital contributions	644,682
Capital contributions	182,277
Increase (Decrease) in Net Position	826,959
Net position, beginning of year	17,136,381
Net position, end of year	\$ 17,963,340

For the year ending December 31, 2021, net position increased by \$826,959 and consisted of operating income of \$41,777, net non-operating income of \$602,905, and capital contributions of \$182,277.

CAPITAL ASSET CHANGES

At December 31, 2021, the District has invested \$28,070,804 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$814,405 from the previous year. The net decrease consisted of additions to capital assets of \$738,751, decreases of \$372,625, and depreciation expense of \$1,180,531.

DEBT ADMINISTRATION

At December 31, 2021, the District had \$7,425,000 in revenue bonds outstanding and \$3,415,201 of loans payable outstanding. This represents a decrease of \$250,000 and a decrease of \$275,398 from the prior year balances of \$7,675,000 and \$3,690,599, respectively.

OTHER MATTERS

The District serves approximately 6,000 residential and commercial customers in Breckenridge, Daviess, Grayson, and Ohio counties, including the cities of Beaver Dam, Fordsville, and Centertown.

**OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

In 2006, the District began the planning process of building a new water treatment plant. The plant was started August 17, 2009 and completed June 15, 2011. The total cost of the 4 MGD plant was \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, and Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA F loans not to exceed a cumulative total of \$5,000,000 and the District providing \$2,000,000. The Ohio County Fiscal Court paid \$550,000 towards the amount of the project. The fiscal court agreed to cover \$3,000,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bears a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of 20 years.

During 2015, the remaining balance of the 2003 bond series was paid off with proceeds from the 2015 bond series.

During 2015, the District implemented GASB No. 68, *Accounting and Financial Reporting for Pensions*. This standard requires cost-sharing governments to report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the participants in the plan. Therefore, included in long-term liabilities is a net pension liability of \$2,235,095 for 2021.

During 2016, the District placed in service phase 1 of a water system upgrade costing approximately \$1,000,000. A revolving loan was obtained from KIA for the project. The loan will be repaid over a period not to exceed twenty years.

During 2018, the District retrospectively implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB")*. This standard requires cost-sharing governments to report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based upon their proportionate share of collective amounts for all participants in the plan. Therefore, included in long-term liabilities is a net OPEB liability of \$670,976 for 2021.

REQUEST FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact the District at 124 East Washington Street, Hartford, KY 42347.

**OHIO COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	<u>DECEMBER 31, 2021</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 488,350
Certificates of deposit	175,815
Accounts receivable - customers	374,356
Accounts receivable - other	2,055
Insurance receivable	593,752
Inventory	211,079
Prepaid expenses	65,048
Unbilled revenue	298,812
Accrued interest receivable	3,839
HRA trustee balance	7,597
TOTAL CURRENT ASSETS	<u>2,220,703</u>
NONCURRENT ASSETS	
Cash and cash equivalents - restricted	1,503,696
Certificates of deposit - restricted	923,556
Capital assets not being depreciated	510,089
Other capital assets, net of depreciation	27,337,015
Construction in progress	223,700
TOTAL NONCURRENT ASSETS	<u>30,498,056</u>
TOTAL ASSETS	<u>32,718,759</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts from pension	285,188
Deferred amounts from OPEB	388,144
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>673,332</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>33,392,091</u></u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	\$ 224,654
Accrued liabilities	19,752
Accrued interest payable	125,946
Compensated absences	38,357
Sales tax payable	989
Utility tax payable	9,669
Accrued retirement	35,508
Customer deposits	197,577
Current portion of long-term debt	543,676
TOTAL CURRENT LIABILITIES	<u>1,196,128</u>
NONCURRENT LIABILITIES	
Net pension liability	2,235,095
Net OPEB liability	670,976
Long-term debt, net of current portion	10,296,525
Bond premium, net of amortization of \$18,203	180,247
TOTAL NONCURRENT LIABILITIES	<u>13,382,843</u>
TOTAL LIABILITIES	<u>14,578,971</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts from pension	481,299
Deferred amounts from OPEB	368,481
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>849,780</u>
NET POSITION	
Net investment in capital assets	17,050,356
Restricted	582,061
Unrestricted	330,923
TOTAL NET POSITION	<u>17,963,340</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>33,392,091</u></u>

Accompanying notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021**

	DECEMBER 31, 2021
OPERATING REVENUES	
Water sales	\$ 4,384,336
Charges for services	73,564
Miscellaneous service revenue	8,702
Other revenues	49,619
TOTAL OPERATING REVENUES	4,516,221
 OPERATING EXPENSES	
Salaries and wages	966,601
Payroll tax expense	81,764
Employee pension and benefits	574,753
Other contractual services	597,663
Rental of equipment	1,316
Utilities	360,459
Telephone	59,392
Computer support	16,622
Materials and supplies	251,358
Insurance	76,117
Rental of building and other real estate	4,566
Travel	68,373
Commission fees	7,479
Depreciation	1,178,863
Bad debt expense	18,920
Chemicals and safety	127,760
Credit card fees	53,138
Miscellaneous operating expenses	27,843
Advertising	1,457
TOTAL OPERATING EXPENSES	4,474,444
OPERATING INCOME (LOSS)	41,777
 NON-OPERATING REVENUES (EXPENSES)	
Interest income	24,404
Interest expense	(292,802)
Non-utility income	11,382
Non-utility expense	(4,866)
KIA service fees	(9,368)
Insurance proceeds	593,752
State project	357,740
Gain/loss on sale of fixed assets	(77,337)
TOTAL NON-OPERATING REVENUES (EXPENSES)	602,905

(CONTINUED)

Accompanying notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2021**

	DECEMBER 31, 2021
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	\$ 644,682
CAPITAL CONTRIBUTIONS	
Capital contributions from customers	43,370
Capital contributions from other government	138,907
TOTAL CAPITAL CONTRIBUTIONS	182,277
CHANGE IN NET POSITION	826,959
TOTAL NET POSITION-BEGINNING OF YEAR	17,136,381
TOTAL NET POSITION-END OF YEAR	\$ 17,963,340

(CONCLUDED)

Accompanying notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	DECEMBER 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,436,692
Payments to suppliers for goods and services	(2,251,975)
Payments to employees for services	(960,685)
Other receipts (payments)	7,740
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,231,772
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
KIA service fees	(9,368)
Principal repayment of debt	(525,398)
Purchases of capital assets	(735,708)
Capital contributions	182,277
Interest paid on debt	(297,704)
Rent income, net of rent expenses	8,184
Line relocation revenue	357,740
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,019,977)
CASH FLOWS FROM INVESTING ACTIVITIES	
(Increase) decrease in certificates of deposit	(15,677)
Interest on cash deposits	17,224
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,547
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	213,342
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,778,704
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,992,046
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 41,777
Adjustments to reconcile net operating income to net cash provided (used) by operating activities	
Depreciation expense	1,178,863
Changes in assets and liabilities	
Net (increase) decrease in accounts receivable - customers	(63,203)
Net (increase) decrease in accounts receivable - other	27,917
Net (increase) decrease in inventory	(13,225)
Net (increase) decrease in prepaid expenses	(14,867)
Net (increase) decrease in unbilled revenue	(44,242)
Net (increase) decrease in HRA trustee balance	(7,597)
Deferred outflows of resources - pension	221,485
Deferred outflows of resources - OPEB	43,531
Net increase (decrease) in accounts payable	23,334
Net increase (decrease) in accrued liabilities	(25,278)
Net increase (decrease) in compensated absences	22,844
Net increase (decrease) in sales tax payable	138
Net increase (decrease) in utility tax payable	1,710
Net increase (decrease) in accrued retirement	2,962
Net increase (decrease) in customer deposits	5,890
Net increase (decrease) in net pension liability	(583,753)
Net increase (decrease) in OPEB liability	(216,570)
Deferred inflows of resources - pension	429,650
Deferred inflows of resources - OPEB	200,406
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,231,772

Accompanying notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

The Ohio County Water District (the “District”) was organized on April 2, 1962, pursuant to Section 74 of the Kentucky Revised Statutes. It was developed to provide water services to residential and commercial customers in Breckenridge, Daviess, Grayson, and Ohio counties, including the cities of Beaver Dam, Centertown, and Fordsville.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

1. Financial Reporting Entity

The District is governed by a seven-member board (the “Board”), five of whom are appointed by the Ohio County Fiscal Court and two are appointed by the Daviess County Fiscal Court.

2. Basis of Presentation

The records of the District are maintained on the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

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

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position.

OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Basis of Presentation (Concluded)

Operating revenues within the proprietary fund are those revenues that are generated from the primary operations of the District. Except for capital grants which are reported as capital contributions, all other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

GASB No. 34 requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This component of net position consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets”.

3. Cash and Cash Equivalents

The District has defined cash and cash equivalents to include all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

4. 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Accounts Receivable

The District recognizes revenues as services are rendered. Accounts receivable represent balances due from the customers, and are stated at face value. Management considers all balances to be collectible at the fiscal year-end, and therefore, an allowance for uncollectible amounts is not recorded in the financial statements.

6. Inventory

Inventory consists of operating supplies & chemicals and is stated at cost. Inventories are accounted for on the first-in, first-out (FIFO) method.

7. Unbilled Revenue Receivable

Water sold, but unmetered at the date of the financial statements, is estimated based on subsequent billing and included in current assets.

8. Investments

Investments consist of certificates of deposit recorded at cost, which is believed to approximate their fair market value.

9. Bond Premium, Discounts and Issuance Costs

Bond premiums and discounts for proprietary funds are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond premium/discounts are presented as an addition/reduction of the face amount of bonds payable. Bond issuance costs are expensed in the period incurred.

10. Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (“CERS”) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Expenses

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. Impairment of Long-Lived Assets

The District reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended December 31, 2021.

13. Income Taxes

The District is exempt from federal and state income taxes under Section 501 of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the District's financial statements.

14. Restricted Assets

The sinking fund is restricted to the payment of the costs associated with the respective project.

The debt service funds are required under current debt instruments. The funds are restricted to the payment of interest and principal of the long-term debt. At year ended December 31, 2021, the debt service funds were invested in savings accounts with an interest rate of 0.50%.

The depreciation fund was created and continued under previous revenue bond ordinances. The funds are restricted for paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements and the cost of constructing additions and improvements to the system. The funds shall also be available for transfer to the debt service fund in order to avoid default in connection with any outstanding debt payable or to purchase outstanding debt in advance of maturity.

The debt service reserve fund was established by a resolution adopted by the District dated October 28, 2003. The funds are restricted to prevent a default in making payments of principal and interest on the bonds if the amount in the debt service fund is not sufficient to make such payments. In the event of any withdrawal, the District shall restore such deficiencies monthly into the reserve fund 1/36 of the amount required to be accumulated in the reserve funds until the total required debt service has been restored.

The replacement reserve fund was required by new funding sources.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

15. Compensated Absences

The District permits employees to carry-forward unused vacation time from one calendar year to the next. Upon termination of employment, any unused vacation time is paid to the employee. As of December 31, 2021, the liability for accrued compensated absences was \$38,357.

16. Capital Assets

The District defines capital assets as assets with an individual cost of more than \$2,500. Capital assets are reported at cost or the fair market value. Major outlays are capitalized as projects are constructed. Depreciation is computed on the straight-line method over the following useful lives:

	Years
Land improvements	10-20
Pumping treatment plant and equipment	5-50
Transmission and distribution system	5-50
Other equipment	5-10

NOTE B – CASH, CASH EQUIVALENTS AND INVESTMENTS

1. Custodial Credit Risk

As of December 31, 2021, the carrying amount of the District's deposits was \$3,091,417 and the bank balance was \$3,138,088. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute to have bank deposits collateralized. Of the total bank balance, \$500,000 was covered by federal depository insurance and the remaining balance of \$2,638,088 would require collateralization. As of December 31, 2021, \$3,753,958 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

2. Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

3. Credit Risk

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District has no investment policy that would further limit its investment choices.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE B – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONCLUDED)

4. Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

5. Restricted Cash and Investments

Restricted cash and investments consisted of the following at December 31, 2021:

KIA debt service F15-069	\$ 7,454
Debt service series 2015	52,882
Debt service series 2020	6,404
KIA debt service F08-08	20,007
Debt service	1,757
Depreciation savings	542,967
RD depreciation reserve	448,540
KIA replacement reserve	153,192
Regions 2020	270,494
Depreciation BOC	818,063
Debt service series 2015 CD	105,492
	<u>\$ 2,427,252</u>

NOTE C – RISK MANAGEMENT

The District is exposed to various risks of loss related torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries insurance for all risks of loss, including worker's compensation, general liability and accident insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

In December 2020, the Kentucky Public Service Commission ("KPSC") filed an order in the Franklin Circuit Court regarding the legality of assessment and collection of late payments from December 2005 through December 2020. This order was disputed by the District and was settled in January 2022, resulting in a donation of \$2,500 to the Help Office of Ohio County and continuing education for the general manager and all board commissioners.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE D – CAPITAL ASSETS

A summary of capital assets for the year ended December 31, 2021 is as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets not being depreciated				
Land and land rights	\$ 510,420	\$ 4,900	\$ 0	\$ 515,320
Construction in progress	<u>336,529</u>	<u>85,025</u>	<u>(197,854)</u>	<u>223,700</u>
Total capital assets not being depreciated	846,949	89,925	(197,854)	739,020
Other capital assets				
Organization expense	8,245	0	0	8,245
Water contract	1,000	0	0	1,000
Land improvements	8,786,822	0	(117,767)	8,669,055
Treatment plant and equipment	9,049,415	0	0	9,049,415
Transmission and distribution system	25,590,246	585,616	(161,355)	26,014,507
Other equipment	<u>837,052</u>	<u>63,210</u>	<u>(23,300)</u>	<u>876,962</u>
Total other capital assets at historical cost	44,272,780	648,826	(302,422)	44,619,184
Less: Accumulated depreciation	<u>(16,234,520)</u>	<u>(1,180,531)</u>	<u>127,651</u>	<u>(17,287,400)</u>
Total other capital assets, net	<u>28,038,260</u>	<u>(531,705)</u>	<u>(174,771)</u>	<u>27,331,784</u>
Total capital assets	<u>\$28,885,209</u>	<u>\$ (441,780)</u>	<u>\$ (372,625)</u>	<u>\$28,070,804</u>

At December 31, 2021, construction in process consisted of materials and supplies inventory. These amounts were reclassified to be properly reflected in inventory and not part of capital assets for the year ended December 31, 2021.

Depreciation expense for the year ended December 31, 2021 was \$1,180,531.

OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021

NOTE E – LONG-TERM DEBT

Current year long-term debt activity is as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Kentucky Infrastructure Authority F08-08 – interest at 1.00%, administration fee at 0.25%, principal and interest payable semi-annually over a 20 year period, maturing December 1, 2031	\$2,394,974	\$ 0	\$ 207,029	\$2,187,945	\$ 209,105
Kentucky Infrastructure Authority F15-069 – interest at 1.75%, principal and interest payable semi-annually over a 20 year period, maturing June 1, 2037	1,295,625	0	68,369	1,227,256	69,571
Revenue Bonds Series 2015 – Variable interest ranging from 2.00% to 2.250%, principal payable annually and interest paid semi-annually over a 8 year period, maturing August 1, 2023	340,000	0	110,000	230,000	115,000
Revenue Bonds Series 2020A – Variable interest ranging from 2.20% to 5.20%, principal payable annually and interest paid semi-annually over a 30 year period, maturing January 1, 2050	7,335,000	0	140,000	7,195,000	150,000
	<u>\$11,365,599</u>	<u>\$ 0</u>	<u>\$ 525,398</u>	<u>\$10,840,201</u>	<u>\$ 543,676</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE E – LONG-TERM DEBT (CONCLUDED)

Annual debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2022	\$ 543,676	\$ 284,259	\$ 827,935
2023	551,995	270,423	822,418
2024	445,356	256,284	701,640
2025	458,761	244,299	703,060
2026	472,209	231,751	703,960
2027-2031	2,534,345	980,490	3,514,835
2032-2036	1,578,880	770,198	2,349,078
2037-2041	1,349,979	569,918	1,919,897
2042-2046	1,520,000	346,080	1,866,080
2047-2050	1,385,000	90,480	1,475,480
	<u>\$ 10,840,201</u>	<u>\$ 4,044,182</u>	<u>\$ 14,884,383</u>

In 2011, the District began drawing loan proceeds from KIA for the construction of the new water treatment plant. The amount, not to exceed \$5,000,000, was completed for \$3,742,957. Repayment of the loan began after the project was completed and requires semi-annual payments on the dates established by the schedule of payments. The loan bears an interest rate of 1% and an administrative fee of 0.25% over a term of 20 years.

In 2015, the District was approved for a revolving loan not to exceed \$1,630,000 to replace approximately 17,500 linear feet of eight and ten inch lines with a sixteen inch line. The loan is to be repaid beginning one year after completion of the project over a period not to exceed twenty years. It is anticipated that any portion of the loan not currently used may be drawn down or transferred to another project. Principal and interest are payable semi-annually.

The District issued \$960,000 of Waterworks Revenue Bonds Series 2015 to provide for the refunding of the outstanding Series 2003 bonds. The bonds are fully registered and insured as to principal and interest. Interest is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2015. Principal is payable annually on August 1. The bonds are not subject to optional redemption prior to their stated maturities.

The District issued \$7,335,000 of Waterworks Revenue Bonds Series 2020A to provide for the refunding of the outstanding Series 91-01 and 91-03 bonds. The bonds are fully registered and insured as to principal and interest. Interest is payable semi-annually on January 1 and July 1 of each year commencing July 1, 2020. Principal is payable annually on January 1 of each year commencing January 1, 2021. The bonds are not subject to optional redemption prior to their stated maturities.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE F – SUBSEQUENT EVENTS

Ohio County Water District’s management has evaluated and considered the need to recognize or disclose subsequent events through August 11, 2022, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2021, have not been evaluated by management.

NOTE G – PENSION PLAN

General Information about the Pension Plan (County Employees Retirement System): Full-time and eligible part-time employees are covered by the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA), an agency of the Commonwealth of Kentucky. Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of KPPA administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Public Pensions Authority issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to Kentucky Public Pensions Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KPPA website at www.kyret.ky.gov.

Basis of Accounting: For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflow of resources related to pensions, pension expense, information about the fiduciary net position of CERS and additions to/deductions from CERS’s fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

CERS Non-hazardous

<u>Tier 1</u>	Participation date:	Before September 1, 2008
Defined Benefit	Unreduced retirement:	27 years service or 65 years old with 4 years service
	Reduced retirement:	At least 5 years service and 55 years old At least 25 years service and any age
<u>Tier 2</u>	Participation date:	September 1, 2008 – December 31, 2013
Defined Benefit	Unreduced retirement:	At least 5 years service and 65 years old Age 57+ and sum of service years plus age = 87
	Reduced retirement:	At least 10 years service and 60 years old
<u>Tier 3</u>	Participation date:	After December 31, 2013
Cash Balance	Unreduced retirement:	At least 5 years service and 65 years old Age 57+ and sum of service years plus age = 87
	Reduced retirement:	Not available

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE G – PENSION PLAN (CONTINUED)

Benefits Provided (Concluded):

Contributions: The District was required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute normal contribution and past service contribution rates shall be determined by the KPPA Board on the basis of an annual valuation last preceding July of a new biennium. The KPPA Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KPPA Board.

Employees in all tiers contributed 5% of their salaries for non-hazardous and those in Tiers 2 and 3 also contributed an additional 1% of their salaries for insurance. Participating employers contributed 26.95% (21.17% for pension and 5.78% for health insurance) of members' non-hazardous compensation for the year ended December 31, 2021. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KPPA are financed through employer contributions and investment earnings.

The District has met 100% of the contribution funding requirement for the year ended December 31, 2021. Total current year contributions recognized by the Plan were \$134,134 (\$105,366 related to pension and \$28,768 related to OPEB) for the year ended December 31, 2021.

Medical Insurance Plan: In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. Changes made to the medical plan may be made by the Kentucky Public Pensions Authority Board of Trustees and the General Assembly. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2021, the District reported a liability of \$2,235,095 for its proportionate share of the net pension liability for CERS. The total pension liability, net pension liability and sensitivity information as of December 31, 2021, were based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled forward from the valuation date of June 30, 2020 to the plan's fiscal year ended June 30, 2021, using generally accepted actuarial principles. The District's proportion of the net pension liability was based on the actual contributions of the District relative to the total contributions of all participating members of CERS during the measurement period of July 1, 2020 through June 30, 2021. At December 31, 2021, the District's proportion was 0.035056%.

For the year ended December 31, 2021, the District recognized total pension expense of \$250,566 for CERS.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE G – PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued):

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

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
Difference between expected and actual experience	\$ 25,666	\$ 21,693
Change of assumptions	29,998	0
Differences between expected and actual investment earnings on plan investments	86,707	384,607
Changes in proportion and differences between District contributions and proportionate share of contributions	37,451	74,999
District contributions subsequent to the measurement date	105,366	0
Total	\$ 285,188	\$ 481,299

Deferred outflows of resources resulting from District contributions subsequent to the measurement date of \$105,366 will be recognized as a reduction of net pension liability in the year ending December 31, 2021. Other amounts reported as deferred inflows and outflows related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Amount
2022	\$ (34,538)
2023	(104,118)
2024	(69,534)
2025	(93,286)
Thereafter	0
Total	\$ (301,476)

Actuarial Assumptions: The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions (updated from the actuarial assumptions used for June 30, 2020):

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE G – PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued):

Actuarial Assumptions (Concluded):

Inflation Rate:	2.30%
Payroll Growth Rate:	2.00%
Projected Salary Increases:	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return:	6.25%

The mortality table used for active members was a PUB-2010 General Mortality table, for the non-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 long-term expected rates of return were determined by using a building-block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by KPPA, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Expected Real Return	<u>100.00%</u>	<u>5.00%</u>
Long Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>7.30%</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE G – PENSION PLAN (CONCLUDED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded):

Discount Rate: The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as was amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

Sensitivity of Proportionate Share of Net Pension Liability to Changes in the Discount Rate: The following table presents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	5.25%	6.25%	7.25%
District’s proportionate share of the net pension liability	\$2,866,615	\$2,235,095	\$1,712,527

Measurement Date: June 30, 2021 is the actuarial valuation date and measurement date upon which the total pension liability is based.

Pension Plan Fiduciary Net Position: Detailed information about the pension plans’ fiduciary net position is available in the separately issued pension plan financial reports.

Payable to the Pension Plan: At December 31, 2021, the District reported a payable of \$29,424 for the outstanding amount of contributions to the pension plan required at the year ended December 31, 2021.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN

General Information about the County Employees Retirement System Insurance Fund: County Employees Retirement System (CERS) Non-hazardous and Hazardous Insurance Funds are cost-sharing, multiple-employer defined benefit or other post-employment benefits (OPEB) plans for members that cover all regular full-time and eligible part-time members employed in non-hazardous and hazardous duty positions of any state department, board, agency, county, city, school board and any additional eligible local agencies electing to participate. The plan provides for health insurance benefits to plan members, and it may be extended to beneficiaries of plan members under certain circumstances. It is administered by the Kentucky Public Pensions Authority (KPPA), an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute 61.645, the Board of Trustees of the Kentucky Public Pensions Authority administers OPEB and has the authority to establish and amend benefit provisions.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

General Information about the County Employees Retirement System Insurance Fund (Concluded):

The KPPA issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Public Pensions Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or from the KPPA website at www.kyret.ky.gov.

Basis of Accounting: For purposes of measuring the net OPEB liability, deferred outflow of resources and deferred inflow of resources related to OPEB, OPEB expense, information about the fiduciary net position of CERS and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KPPA submits the premium payments to DEI. The KPPA Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan.

Contributions: Employees in Tiers 2 and 3 (see Note G) contribute an additional 1% of their salaries for health insurance. This amount is credited to the Insurance Fund and is non-refundable to the member. Participating employers contributed 26.95% (21.17% for pension and 5.78% for health insurance) of members' non-hazardous compensation for the year ended December 31, 2021.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of

Resources Related to OPEB: At December 31, 2021, the District reported a liability of \$670,976 for its share of the net OPEB liability for CERS. The total OPEB liability, net OPEB liability and sensitivity information as of December 31, 2021, were based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled forward from the valuation date of June 30, 2020 to the plan’s fiscal year ended June 30, 2021, using generally accepted actuarial principles. The District’s proportion of the net OPEB liability was based on the actual contributions of the District relative to the total contributions of all participating members of CERS during the measurement period of July 1, 2020 through June 30, 2021. At December 31, 2021, the District’s proportion was 0.035048%.

For the year ended December 31, 2021, the District recognized total OPEB expense of \$97,192 for CERS.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

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
Difference between expected and actual experience	\$ 105,511	\$ 200,331
Change of assumptions	177,889	624
Differences between expected and actual investment earnings on plan investments	33,806	138,771
Changes in proportion and differences between District contributions and proportionate share of contributions	42,170	28,755
District contributions subsequent to the measurement date	28,768	0
Total	<u>\$ 388,144</u>	<u>\$ 368,481</u>

Deferred outflows of resources resulting from District contributions subsequent to the measurement date of \$28,768 will be recognized as a reduction of net OPEB liability in the year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued):

Year Ending December 31,	Amount
2022	\$ 25,302
2023	9,329
2024	1,316
2025	(45,051)
Thereafter	0
Total	\$ (9,104)

Actuarial Assumptions: The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date:	June 30, 2021
Inflation Rate:	2.30%
Payroll Growth Rate:	2.00%
Projected Salary Increases:	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return:	6.25%
Healthcare Trend Rates (under age 65):	Initial trend starting at 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Trend Rates (age 65 and over):	Initial trend starting at 5.50% at January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

The mortality table used for active members was a PUB-2010 General Mortality table, for the non-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 long-term expected rates of return were determined by using a building-block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KPPA, are summarized in the table in Note G (target allocations and real rates of return are the same for the CERS Pension and Insurance Funds).

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021**

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (CONCLUDED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Concluded):

Discount Rate: The discount rate used to measure the total OPEB liability was 5.20%. 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 twenty-five year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 1.92%, as reported in Fidelity Index’s “20 Year Municipal GO AA Index” as of June 30, 2021. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of Proportionate Share of Net OPEB Liability to Changes in the Discount Rate: The following table presents the District’s proportionate share of the net OPEB liability calculated using the discount rate of 5.20%, 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 one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	4.20%	5.20%	6.20%
District’s proportionate share of the net OPEB liability	\$465,589	\$670,976	\$921,245

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
District’s proportionate share of the net OPEB liability	\$483,023	\$670,976	\$897,839

Measurement Date: June 30, 2021 is the actuarial valuation date and measurement date upon which the total OPEB liability is based.

OPEB Plan Fiduciary Net Position: Detailed information about the OPEB plans’ fiduciary net position is available in the separately issued OPEB plan financial reports.

Payable to the OPEB Plan: At December 31, 2021, the District reported a payable of \$625 for the outstanding amount of contributions to the OPEB plan required at the year ended December 31, 2021.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2021**

NOTE 1 – FAIR VALUE

In compliance with GASB 31, the District's investments are stated at fair value, except for short-term investments. Short-term investments are carried at cost, which approximates fair value. Market value is used for those securities for which market quotations are readily available. For securities that lack readily available market quotations, reasonable estimates of fair value are used based on the market value of similar investments. The District generally holds all investments until maturity or until market values equal or exceed cost.

REQUIRED SUPPLEMENTARY INFORMATION

**OHIO COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
CERS NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Last 10 Fiscal Years*						
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
District's proportion of the net pension liability (asset)	0.027397%	0.031447%	0.030751%	0.034166%	0.035675%	0.036752%	0.035056%
District's proportionate share of the net pension liability (asset)	\$1,177,927	\$1,548,342	\$1,799,951	\$2,080,814	\$2,509,039	\$2,818,848	\$2,235,095
District's covered-employee payroll	\$ 746,634	\$ 822,561	\$ 815,778	\$ 887,015	\$ 911,939	\$ 975,414	\$ 951,518
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.76%	188.23%	220.64%	234.59%	275.13%	288.99%	234.90%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.30%	53.54%	50.45%	48.10%	57.33%

Note: The data provided in this schedule is based on the measurement date of the CERS net pension liability, which is June 30th of the fiscal year presented.

*This schedule is intended to show information for ten years. Additional years will be displayed as they become available. Accompanying notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS TO CERS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Last 10 Fiscal Years*					
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contributions	\$110,171	\$115,961	\$136,220	\$162,034	\$ 188,255	\$ 182,607
Contributions in relation to the contractually required contribution	<u>(110,171)</u>	<u>(115,961)</u>	<u>(136,220)</u>	<u>(162,034)</u>	<u>(188,255)</u>	<u>(182,607)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered-employee payroll	\$822,561	\$815,778	\$887,015	\$911,939	\$ 975,414	\$ 951,518
Contributions as a percentage of covered-employee payroll	13.39%	14.21%	15.36%	17.77%	19.30%	19.19%

*This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Accompanying notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2021**

Last 10 Fiscal Years*

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
District's proportion of the net OPEB liability (asset)	0.034165%	0.035665%	0.036756%	0.035048%
District's proportionate share of the net OPEB liability (asset)	\$ 606,593	\$ 599,869	\$ 887,546	\$ 670,976
District's covered-employee payroll	\$ 887,015	\$ 911,939	\$ 975,414	\$ 951,518
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	71.43%	66.66%	90.99%	70.52%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%	76.11%	51.67%

Note: The data provided in this schedule is based on the measurement date of the CERS net OPEB liability, which is as of June 30th of the fiscal year presented.

*This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Accompanying notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Last 10 Fiscal Years*

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contributions	\$ 44,194	\$ 45,676	\$ 46,430	\$ 47,818
Contributions in relation to the contractually required contribution	<u>(44,194)</u>	<u>(45,676)</u>	<u>(46,430)</u>	<u>(47,818)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's contributions as a percentage of contractually required contribution for OPEB	100.00%	100.00%	100.00%	100.00%
District's covered-employee payroll	\$887,015	\$911,939	\$975,414	\$951,518
Contributions as a percentage of covered-employee payroll	4.98%	5.01%	4.76%	5.03%

*This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Accompanying notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021**

NOTE 1 – PENSION

2021: There were no changes in assumptions and benefit terms since the prior measurement date.

2020: There were no changes in assumptions and benefit terms since the prior measurement date.

2019: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- Payroll growth rate is 2.00% for CERS non-hazardous.
- The assumed rate of salary increases changed from an average of 3.05% to a range of 3.30% to 10.30%, which varies by service for CERS non-hazardous.

2018: There were no changes in assumptions and benefit terms since the prior measurement date.

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

2016: There were no changes in assumptions and benefit terms since the prior measurement date.

2015: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described in Schedule D of the CERS actuary report. The changes are noted below:

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

Accompanying notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2021**

NOTE 2 – OPEB

Changes in Assumptions and Benefit Terms:

2021: Since the prior measurement date, demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The Healthcare Trend Rates (under age 65) were decreased from 6.40% to 6.25% for the initial trend.
- The Healthcare Trend Rates (age 65 and over) were increased from 2.90% to 5.50% for the initial trend.

2020: Since the prior measurement date, demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The Healthcare Trend Rates (under age 65) were decreased from 7.00% to 6.40% for the initial trend.
- The Healthcare Trend Rates (age 65 and over) were decreased from 5.00% to 2.90% for the initial trend.

2019: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate for salary increases changed from an average of 3.05% to a range of 3.30% to 10.30%, which varies by service for CERS non-hazardous.

2018: There were no changes in assumptions and benefit terms since the prior measurement date.

Accompanying notes to the financial statements are an integral part of this statement.

Buckles, Travis & Hart, PLLC

Certified Public Accountants

DENNIS R. BUCKLES, CPA
BRAD K. TRAVIS, CPA/PFS
ROBIN G. HART, CPA

www.graysoncpas.com

211 West White Oak Street
Post Office Box 4069
Leitchfield, KY 42755-4069
Phone 270-259-5604
Fax 270-259-5603

INDEPENDENT AUDITORS' 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*

Commissioners
Ohio County Water District
Hartford, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Ohio County Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Ohio County Water District's basic financial statements and have issued our report thereon dated August 11, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant. 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 may exist that have not been identified.

Report on Compliance and Other Matters

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

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.

Respectfully submitted,

Buckles, Travis & Hart, PLLC

Buckles, Travis & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
August 11, 2022