OLDHAM COUNTY WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2022 AND 2021

OLDHAM COUNTY WATER DISTRICT

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YEARS ENDED DECEMBER 31, 2022 AND 2021

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Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Oldham County Water District
Buckner, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Oldham County Water District as of and for the years ended December 31, 2022 and 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 Oldham County Water District, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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 Oldham County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Oldham 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 Oldham 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2022, the District adopted Governmental Accounting Standards Board Statement 87, *Leases,* Statement 91, *Conduit Debt Obligations,* Statement 92, *Omnibus 2020,* Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32,* Statement 98, *The Annual Comprehensive Financial Report and* Statement 99, *Omnibus 2022*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 9, schedule of proportionate share of the net pension and OPEB liabilities on pages 32 and 33 and schedule of contributions on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2023, on our consideration of Oldham County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Oldham County Water District's internal control over financial reporting and compliance.

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
March 23, 2023

REQUIRED SUPPLEMENTARY INFORMATION

OLDHAM COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2022

The discussion and analysis of Oldham County Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2022. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of 2022 by $39 million (net position). Of this amount, $5.5 million (unrestricted net position) may be used to meet the District's ongoing obligations to customers and creditors. The District's total net position increased by $1.3 million in 2022. This represents a 3.6% increase from the 2021 balance.

- The ending cash and investment balance for the District was $14.2 million. The balance at December 31, 2021, was $14.3 million. This reflects a decrease in cash and investments during the year of $106 thousand.

- The District invested approximately $2.7 million in capital assets during the year.

- The economic disruption caused by the Coronavirus (COVID-19) pandemic that began in 2020 continues even into 2022 and we believe this will continue going forward. The District saw significant price increases in inventory, chemicals, fuel, etc. along with delayed delivery times which caused the District to evaluate the amount of materials needed to keep on hand. The District also examined both attraction and retention regarding employment considerations and implemented increases in pay across the board and benefits to attract and retain employees. The District continues to monitor internal operations such as technology controls, security and employee operations. These events had no significant negative effect on the overall financial position or results of operations.

<u>USING THIS ANNUAL REPORT</u>

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

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

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

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

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

ENTITY-WIDE FINANCIAL ANAYLSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by $39.0 million and $37.7 million as of December 31, 2022 and 2021. The largest portion of the District's net position (62%) reflects its investment in infrastructure and capital assets (e.g., land and land rights, plant and equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Position
as of December 31, 2022 and 2021

	2022	2021
Assets		
Current and		
Other Assets	$ 19,469,462	$ 19,640,815
Capital Assets	36,039,832	34,542,151
Total Assets	55,509,294	54,182,966
Deferred Outflows of Resources	1,018,273	729,847
Long-term liabilities	15,569,450	15,195,246
Other Liabilities	1,071,488	1,069,470
Total Liabilities	16,640,938	16,264,716
Deferred Inflows of Resources	858,040	959,630
Net Position		
Net investment in capital assets	24,141,763	22,462,467
Restricted	9,372,299	8,357,170
Unrestricted	5,513,925	6,868,830
Total Net Position	$ 39,027,987	$ 37,688,467

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), decreased by 20% from $6.9 million to $5.5 million at December 31, 2022. Restricted net position increased $1.0 million (12%). Net investment in capital assets increased by $1.7 million (8%).

(Table 2)
Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES:		
Water sales	$ 5,034,611	$ 4,915,805
Other operating income	165,833	103,541
Total operating revenues	5,200,444	5,019,346
OPERATING EXPENSES:		
Water supply	306,228	305,574
Water treatment	817,131	642,383
Transmission and distribution	1,323,639	986,234
Customer accounts	863,383	795,169
General and administrative	842,241	713,655
Depreciation	1,073,910	1,029,651
Total operating expenses	5,226,532	4,472,666
OPERATING INCOME (LOSS)	(26,088)	546,680
NON-OPERATING REVENUES (EXPENSES):		
Investment income	176,710	132,393
Other income	274,872	286,866
Gain on disposal of capital assets	48,115	18,779
Interest expense	(405,839)	(421,815)
Amortization of bond discount and expense	2,177	6,918
TOTAL NON-OPERATING REVENUES (EXPENSES)	96,035	23,141
Capital contributions	1,269,573	1,047,879
Increase in net position	$ 1,339,520	$ 1,617,700
Net position, beginning of year	37,688,467	36,070,767
Net position, end of year	$ 39,027,987	$ 37,688,467

Operating revenue increased by 4% while operating expenses increased by 17% compared to the prior year. Investment income increased by 33% due to market conditions and rate of returns on investments. The gain on disposal of capital assets increased due to the timing of fleet turnover. The District continues to receive capital contributions through the State of Kentucky, the Federal government, customers and individual developers. These capital contributions increased 21% compared to prior year.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2022 and 2021, the District had $36.0 million and $34.5 million invested in a variety of capital assets, as reflected in the following tables:

(Table 3)
Capital Assets (Net of Depreciation)
as of December 31, 2022 and 2021

	2022	2021
Non-Depreciable Assets:		
Land and land rights	$ 3,157,374	$ 2,966,089
Construction in progress	355,451	165,453
Depreciable Assets:		
Plant and equipment	32,527,007	31,410,609
Total capital assets, net of depreciation	$ 36,039,832	$ 34,542,151

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2022 and 2021

	2022	2021
Beginning balance	$ 34,542,151	$ 34,109,574
Additions	2,577,293	1,473,159
Retirements	(5,702)	(10,931)
Depreciation	(1,073,910)	(1,029,651)
Ending balance	$ 36,039,832	$ 34,542,151

Debt

At December 31, 2022 and 2021, the District had $11.7 million and $12.0 million, in revenue bonds outstanding. Other loans were paid off during 2022. The year ended with $0 loans compared to the $170 thousand the prior year. A total of $202 thousand is due during 2023.

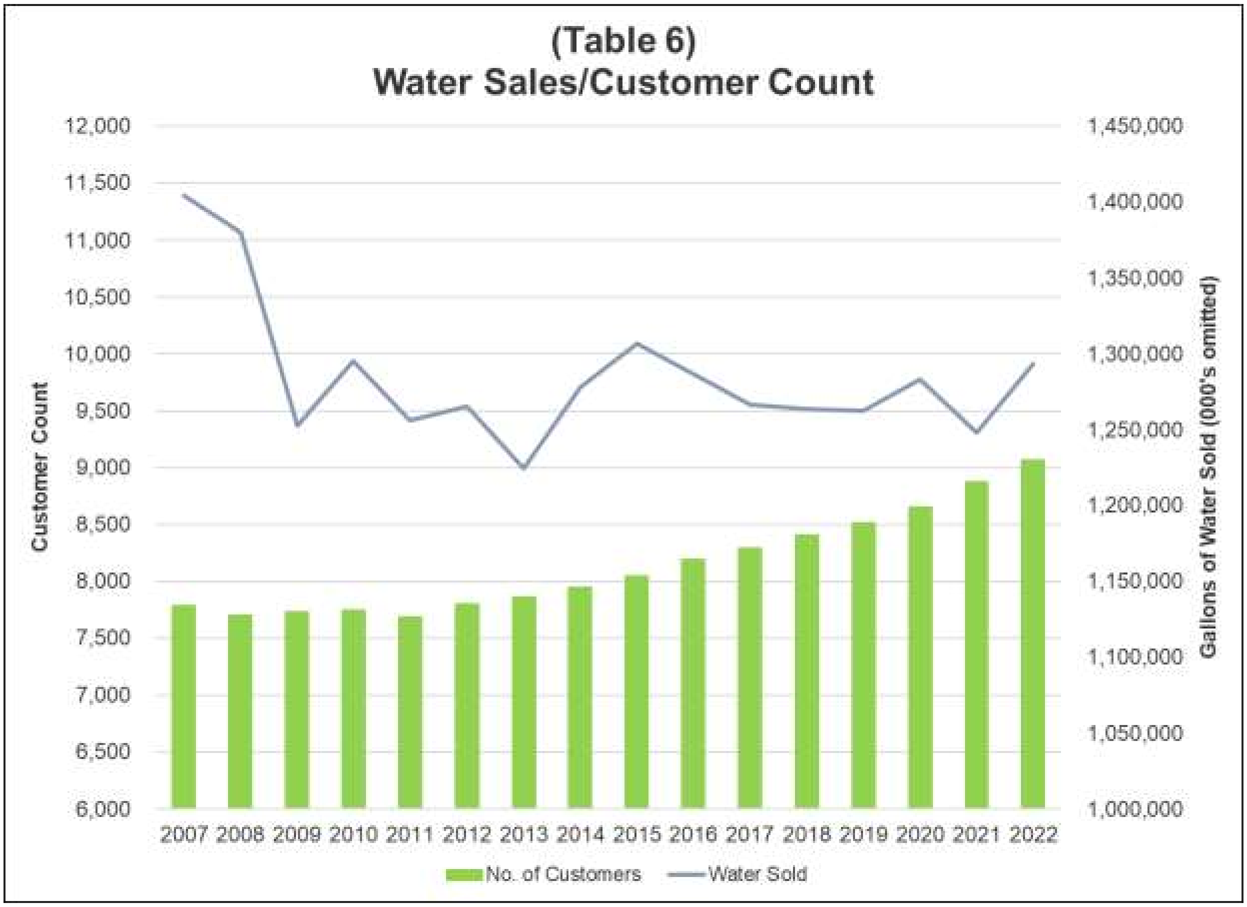
(Table 5)
Outstanding Debt
as of December 31, 2022 and 2021

	2022	2021
Revenue bonds	$ 11,789,100	$ 11,981,100
Loans	-	170,000
Unamortized discount	(73,598)	(78,852)
Unamortized premium	-	7,436
	$ 11,715,502	$ 12,079,684

District Challenges for the Future

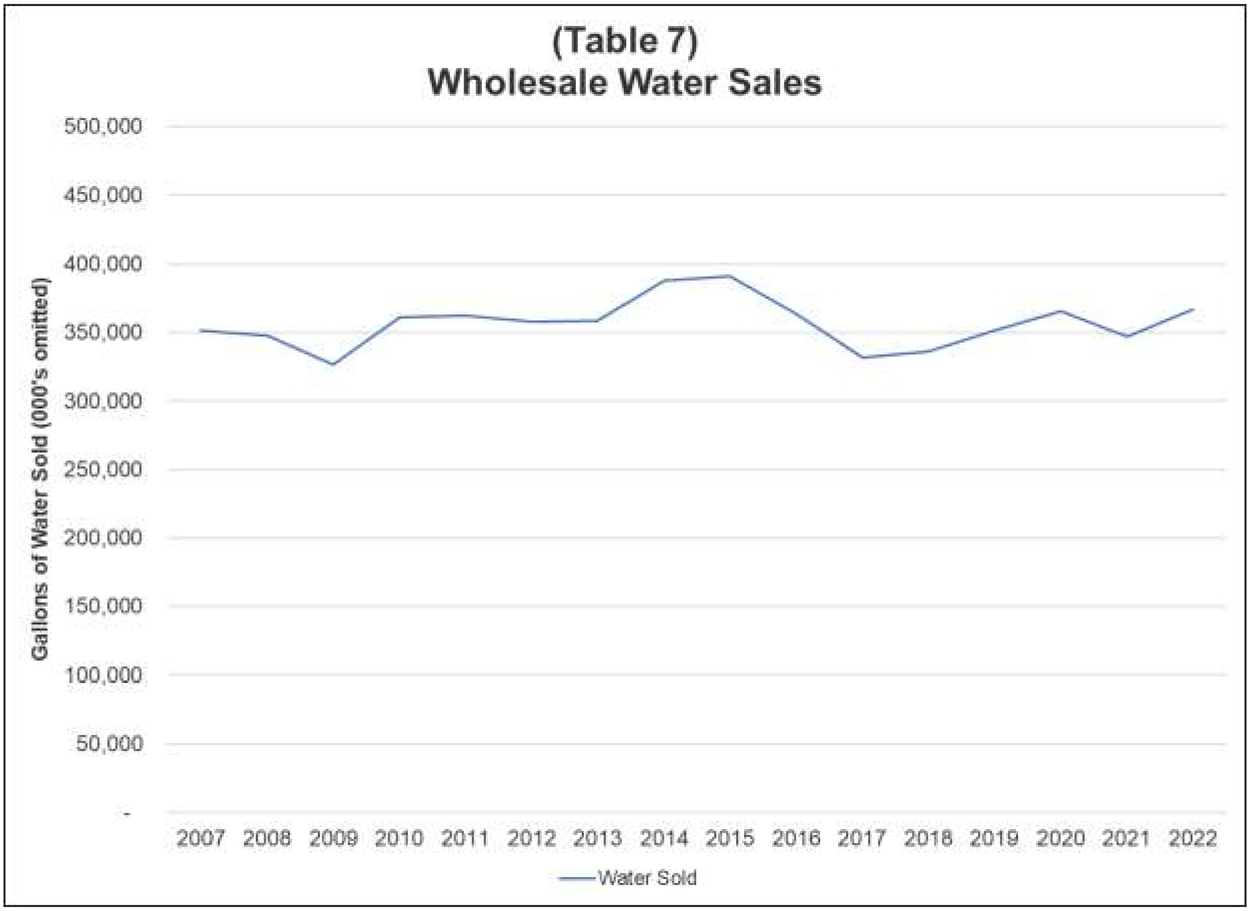
The District continues to be financially sound. As the District serves more customers, infrastructure ages, and water consumption falls, the District will continue to use careful planning and monitoring of finances to provide quality services to its customers. The District acknowledges the future need for a rate increase on the use of water and will examine the fee structure associated with water sales in order to continue to provide quality services.

Economic factors and increased water saving fixtures are a contributing factor to the 111 million or 8% decline in gallons of water sold from fifteen years prior (2007), primarily driven by the retail water consumption, while the District's customer count has risen by 1,284 or 17% during these fifteen years.



The District's largest non-wholesale customer purchased 13% of the water sold in 2022 which is down from 20% in 2017, five years prior. The District continues to see a reduction of water use from this customer due to their restructure.

The District's wholesale water purchased has remained relatively flat over the past fifteen years. In 2022 wholesale purchased 28% of the water sold.



Contacting the District's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Lacey Cunningham, Finance & Administrative Manager, P.O. Box 51, Buckner, Kentucky 40031, (502) 222-1690.

BASIC FINANCIAL STATEMENTS

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash	$ 4,867,394	$ 5,988,026
Accounts receivable, net	653,673	580,515
Interest receivable	27,023	-
Prepaid expenses	44,957	49,954
Prepaid bonds	-	390,808
Materials and supplies	607,799	566,997
TOTAL CURRENT ASSETS	6,200,846	7,576,300
NONCURRENT ASSETS:		
Restricted cash	9,372,299	8,357,170
Regulatory asset - CERS pension	3,036,775	2,927,768
Regulatory asset - CERS OPEB	859,542	779,577
Non-depreciable capital assets	3,512,825	3,131,542
Depreciable capital assets, net of accumulated depreciation	32,527,007	31,410,609
TOTAL NONCURRENT ASSETS	49,308,448	46,606,666
TOTAL ASSETS	55,509,294	54,182,966
DEFERRED OUTFLOWS OF RESOURCES		
Deferrred outflows of resources - CERS pension	553,876	279,788
Deferrred outflows of resources - CERS OPEB	464,397	450,059
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,018,273	729,847
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	82,142	152,688
Construction projects payable	182,567	-
Accrued vacation	95,273	66,603
Tax collections	13,486	14,118
Other collections	159,627	167,712
Accrued payroll and taxes	47,520	34,853
Other accrued expenses	86,873	72,688
Accrued interest	202,000	198,808
Bonds and loans payable	202,000	362,000
TOTAL CURRENT LIABILITIES	1,071,488	1,069,470
NONCURRENT LIABILITIES:		
Net pension liability	3,186,260	2,674,642
Net OPEB liability	869,688	802,920
Bonds and loans payable	11,513,502	11,717,684
TOTAL NONCURRENT LIABILITIES	15,569,450	15,195,246
TOTAL LIABILITIES	16,640,938	16,264,716
DEFERRED INFLOWS OF RESOURCES		
Deferred intflows of resources - CERS pension	404,391	532,914
Deferred intflows of resources - CERS OPEB	454,251	426,716
TOTAL DEFERRED INFLOWS OF RESOURCES	858,642	959,630
NET POSITION		
Net investment in capital assets	24,141,763	22,462,467
Restricted for debt service	2,608,917	2,194,151
Restricted for depreciation	6,763,382	6,163,019
Unrestricted	5,513,925	6,868,830
TOTAL NET POSITION	$ 39,027,987	$ 37,688,467

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

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING REVENUES:		
Water sales	$ 5,034,611	$ 4,915,805
Other operating income	165,833	103,541
TOTAL OPERATING REVENUES	5,200,444	5,019,346
OPERATING EXPENSES:		
Water supply	306,228	305,574
Water treatment	817,131	642,383
Transmission and distribution	1,323,639	986,234
Customer accounts	863,383	795,169
General and administrative	842,241	713,655
Depreciation	1,073,910	1,029,651
TOTAL OPERATING EXPENSES	5,226,532	4,472,666
OPERATING INCOME (LOSS)	(26,088)	546,680
NON-OPERATING REVENUES (EXPENSES):		
Investment income	176,710	132,393
Other income	274,872	286,866
Gain on disposal of capital assets	48,115	18,779
Interest expense	(405,839)	(421,815)
Amortization of bond discount and premium	2,177	6,918
TOTAL NON-OPERATING REVENUES (EXPENSES)	96,035	23,141
CAPITAL CONTRIBUTIONS	1,269,573	1,047,879
CHANGE IN NET POSITION	1,339,520	1,617,700
NET POSITION, beginning of year	37,688,467	36,070,767
NET POSITION, end of year	$ 39,027,987	$ 37,688,467

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

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 5,127,286	$ 5,013,242
Payments to suppliers	(1,611,576)	(1,300,272)
Payments to employees	(2,600,592)	(2,170,441)
NET CASH PROVIDED BY OPERATING ACTIVITIES	915,118	1,542,529
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	-	(183,000)
Principal payments on notes	(170,000)	(335,000)
Prepaid bond payments	-	(390,808)
Acquisition of capital assets	(1,325,497)	(704,151)
Contributions in aid of construction	198,003	268,507
Interest paid	(203,801)	(424,872)
Sale of capital assets	56,115	29,712
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,445,180)	(1,739,612)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	-	3,722,747
Other income	274,872	286,866
Investment income	149,687	132,393
NET CASH PROVIDED BY INVESTING ACTIVITIES	424,559	4,142,006
NET INCREASE IN CASH	(105,503)	3,944,923
CASH AND RESTRICTED CASH, beginning of year	14,345,196	10,400,273
CASH AND RESTRICTED CASH, end of year	$ 14,239,693	$ 14,345,196
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (26,088)	$ 546,680
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	1,073,910	1,029,651
(Increase) in accounts receivable	(73,158)	(6,104)
(Increase) decrease in prepaids	4,997	(3,542)
(Increase) In materials and supplies	(40,802)	(110,081)
Increase (decrease) in accounts payable	(70,546)	68,956
Increase (decrease) in accrued vacation	28,670	(6,642)
Increase in other liabilities	18,135	23,611
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 915,118	$ 1,542,529

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

NOTES TO BASIC FINANCIAL STATEMENTS

OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Oldham County Water District was created by the order of the county Judge/Executive of Oldham County, Kentucky, on April 16, 1979. The order approved the merger of the existing Ohio River – Oldham Water District and the Oldham County Water District No. 3. The waterworks system of the District is owned and operated by the District under the provisions of Chapters 74 and 106 and Sections 96.350 through 96.510, inclusive, of the Kentucky Revised Statutes.

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

A. REPORTING ENTITY

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

B. BASIC FINANCIAL STATEMENTS

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

(Continued next page)

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred. Because the District's rates are regulated by the Kentucky Public Service Commission the District accounts for the financial effects of regulation in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, Paragraphs 476-500, Regulated Operations. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

D. FINANCIAL STATEMENT AMOUNTS

1. Cash and cash equivalents – The District has defined cash and cash equivalents to include cash on hand and demand deposits. The District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

2. Restricted Assets – Restricted assets consist of deposit accounts.

3. Materials and supplies – Materials and supplies is composed of items used in the capital construction process.

4. Accounts Receivable – The allowance method is used to record uncollectible accounts. At December 31, 2022 and 2021, accounts receivable was stated net of an allowance for uncollectible accounts of $39,918 and $34,415. Bad debt expense for 2022 was $10,083 and for 2021 was $3,001. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.

5. Capital Assets – Capital assets and construction in progress with a life extending beyond one operating cycle are recorded at historical cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. Assets are depreciated on the straight-line method. Depreciation on plant and equipment is calculated using the following estimated useful lives ranging from 10 to 62.5 years.

6. Compensated absences – The District accrues unpaid vacation when earned by the employee.

(Continued next page)

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

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

   a. Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
   b. Restricted net position – consist of net position that is restricted by the District's creditors (for example, through debt covenants), by grantors (both federal, state and local) and by other contributors.
   c. Unrestricted – all other net position is reported in this category.

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

10. Amortization – Bond discounts and premiums are being amortized using the interest method over the life of each respective bond issue.

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

12. Long-term Obligations – Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts are deferred and amortized over the life of the bonds. Issuance costs are expensed as incurred.

13. Use of Estimates – 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.

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

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

15. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In June 2017, the GASB issued Statement 87, *Leases*. This adoption did not have an effect on the financial statements.

In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. This adoption did not have an effect on the financial statements.

In January 2020, the GASB Issued Statement 92, *Omnibus 2020*. This adoption did not have an effect on the financial statements.

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* This adoption did not have an effect on the financial statements.

In October 2021, the GASB issued Statement 98, *The Annual Comprehensive Financial Report.* This adoption did not have an effect on the financial statements.

In October 2021, the GASB issued Statement 99, *Omnibus 2022.* This statement is effective for periods beginning after December 15, 2021. This adoption did not have an effect on the financial statements.

Recently Issued Accounting Pronouncements

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

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

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

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

NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2022 and 2021, $13,805,009 and $13,926,379 of the District's bank balance of $14,305,009 and $14,426,379 was exposed to custodial credit risk. For 2022, of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution. For 2021, of the amount exposed to custodial credit risk, $13,733,500 was collateralized by securities held by the pledging financial institution and $192,879 was uninsured. The District's policy is to have all deposited fully secured by FDIC or pledged securities.

NOTE 3 - RESTRICTED CASH

The District has restricted cash for various purposes including debt service and future construction. The following schedule represents restricted cash at December 31, 2022 and 2021:

Restricted For	December 31, 2022	December 31, 2021
Debt service	$ 2,608,917	$ 2,194,151
Depreciation fund	6,763,382	6,163,019
	$ 9,372,299	$ 8,357,170

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NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 follows.

	Balance at December 31, 2021	Additions	Retirements	Balance at December 31, 2022
Non-Depreciable Assets:				
Land and land rights	$ 2,966,089	$ 191,285	$ -	$ 3,157,374
Construction in progress	165,453	352,463	(162,465)	355,451
Total Capital Assets Not Being Depreciated	3,131,542	543,748	(162,465)	3,512,825
Capital Assets Being Depreciated:				
Plant and equipment	51,030,817	2,196,010	(143,290)	53,083,537
Total Capital Assets Being Depreciated at historical cost	51,030,817	2,196,010	(143,290)	53,083,537
Less: accumulated depreciation	(19,620,208)	(1,073,910)	137,588	(20,556,530)
Total Other Capital Assets, net	31,410,609	1,122,100	(5,702)	32,527,007
Net capital assets	$ 34,542,151	$ 1,665,848	$ (168,167)	$ 36,039,832

Capital asset activity for the year ended December 31, 2021 follows.

	Balance at December 31, 2020	Additions	Retirements	Balance at December 31, 2021
Non-Depreciable Assets:				
Land and land rights	$ 2,844,536	$ 121,553	$ -	$ 2,966,089
Construction in progress	48,925	116,528	-	165,453
Total Capital Assets Not Being Depreciated	2,893,461	238,081	-	3,131,542
Capital Assets Being Depreciated:				
Plant and equipment	49,870,472	1,235,078	(74,733)	51,030,817
Total Capital Assets Being Depreciated at historical cost	49,870,472	1,235,078	(74,733)	51,030,817
Less: accumulated depreciation	(18,654,359)	(1,029,651)	63,802	(19,620,208)
Total Other Capital Assets, net	31,216,113	205,427	(10,931)	31,410,609
Net capital assets	$ 34,109,574	$ 443,508	$ (10,931)	$ 34,542,151

During the years ended December 31, 2022 and 2021, the District capitalized no interest and expensed $405,839 and $421,815 of interest costs.

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OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 5 – LONG-TERM OBLIGATIONS

The construction costs of the District's water facilities have been financed by issuance of revenue bonds authorized under Kentucky Revised Statutes and loans through the Kentucky Infrastructure Authority. All assets of the District are pledged as collateral for these bonds and loans. Information relating to the outstanding bond issues is summarized below:

Long-term debt

Bond Issue	Interest Rate	Face Amount	Amount Due 12/31/2022	Amount Due 12/31/2021
2010 Series A	3.75%	$ 4,243,100	$ 3,646,100	$ 3,713,100
2010 Series B	3.13%	9,000,000	8,143,000	8,268,000
			11,789,100	11,981,100

Loan Issue	Interest Rate	Face Amount	Amount Due 12/31/2022	Amount Due 12/31/2021
KIA C01-02	2.50%	4,355,000	-	170,000
			-	170,000
Total Long-term debt			$ 11,789,100	$ 12,151,100

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

	Balance at December 31, 2021	Additions	Reductions	Balance at December 31, 2022	Amount Due Within One Year
Long-term debt payable:					
Revenue bonds	$ 11,981,100	$ -	$ (192,000)	$ 11,789,100	$ 202,000
Loans	170,000	-	(170,000)	-	-
Unamortized discount	(78,852)	-	5,254	(73,598)	-
Unamortized premium	7,436	-	(7,436)	-	-
Total long-term debt payable	$ 12,079,684	$ -	$ (364,182)	$ 11,715,502	$ 202,000

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OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Long-term liability activity for the year ended December 31, 2021, was as follows:

	Balance at December 31, 2020	Additions	Reductions	Balance at December 31, 2021	Amount Due Within One Year
Long-term debt payable:					
Revenue bonds	$ 12,164,100	$ -	$ (183,000)	$ 11,981,100	$ 192,000
Loans	505,000	-	(335,000)	170,000	170,000
Unamortized discount	(86,796)	-	7,944	(78,852)	-
Unamortized premium	22,298	-	(14,862)	7,436	-
Total long-term debt payable	$ 12,604,602	$ -	$ (524,918)	$ 12,079,684	$ 362,000

Bond and loan maturities in each of the next five years and in five year increments thereafter are as follows at December 31, 2022:

Year	Bonds Principal	Interest	Total	Interest to be paid by Federal Government
2023	$ 202,000	$ 389,876	$ 591,876	$ 47,393
2024	211,000	383,424	594,424	46,567
2025	220,000	375,951	595,951	45,451
2026	231,000	368,521	599,521	44,414
2027	242,000	360,722	602,722	43,325
2028-2032	1,384,000	1,674,224	3,058,224	198,716
2033-2037	1,735,000	1,409,146	3,144,146	159,871
2038-2042	2,176,000	1,082,218	3,258,218	113,062
2043-2047	2,728,000	675,841	3,403,841	55,629
2048-2052	2,660,100	226,107	2,886,207	4,511
	$ 11,789,100	$ 6,946,030	$ 18,735,130	$ 758,939

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

Bond and Interest Redemption Funds

There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2010 Series A and 2010 Series B.

Depreciation Fund

This fund receives, on a monthly basis, $27,425 until the balance reaches $747,000. The fund was fully funded at December 31, 2022 and 2021. This fund also receives the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment.

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NOTE 6 - RETIREMENT PLAN

Plan Description

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

Benefits Provided

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

Contributions

For the calendar year ended December 31, 2022, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

The District's contractually required contribution rate for the calendar year ended December 31, 2022, was 21.17 percent for the period January 1 to June 30 and 23.40 percent for the period July 1 through December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2021, was 19.30 percent for the period January 1 to June 30 and 21.17 percent for the period July 1 through December 31. Contributions to the pension plan for the years ended December 31, 2022 and 2021 from the District were $323,697 and $231,420. At December 31, 2022 and 2021, the District owed $49,867 and $33,963 to the plan for contributions for December.

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OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

At December 31, 2022, the District reported a liability of $3,186,260 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 using standard roll-forward techniques. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all, actuarially determined. At June 30, 2022, the District's proportion was 0.044076 percent, which was an increase of .002126 percent from its proportion measured as of June 30, 2021.

For the years ended December 31, 2022 and 2021, the District recognized pension expense of $323,697 and $231,420. At December 31, 2022 and 2021, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,407	$ 28,375
Difference between projected and actual investment earnings	433,555	351,870
Changes in proportion and differences between employer contributions and proportionate share of contributions	116,914	24,146
	$ 553,876	$ 404,391

2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 30,713	$ 25,959
Changes in actuarial assumptions	35,897	-
Difference between projected and actual investment earnings	103,758	460,243
Changes in proportion and differences between employer contributions and proportionate share of contributions	109,420	46,712
	$ 279,788	$ 532,914

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The total pension liability in the June 30, 2022 actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

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

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

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

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

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OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Core Fixed Income	10.00%	28.00%
Specialty Credit	10.00%	2.28%
Cash	0.00%	-0.91%
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate of 6.25% for CERS Nonhazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as amended by House Bill 362 (passed in 2018) over the remaining 29 years (closed) amortization period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the Annual Comprehensive Financial Report (ACFR).

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

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	$ 3,982,430	$ 3,186,260	$ 2,527,762

Pension Plan Fiduciary Net Position

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

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLAN

Plan Description

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

Benefits provided

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

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Contributions
For the calendar year ended December 31, 2022, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

The District's contractually required contribution rate for the calendar year ended December 31, 2022, was 5.78 percent of creditable compensation from January 1 to June 30 and 3.39 percent of creditable compensation from July 1 through December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2021, was 4.76 percent of creditable compensation from January 1 to June 30 and 5.78 percent of creditable compensation from July 1 through December 31. Contributions to the OPEB plan from the District were $63,851 for the year ended December 31, 2022 and $60,597 for the year ended December 31, 2021. At December 31, 2022 and 2021, the District owed $7,224 and $9,273 to the plan for contributions for December.

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

At December 31, 2022, the District reported a liability of $869,688 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021 using standard roll-forward techniques. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participants, actuarially determined. At June 30, 2022, the District's proportion was 0.044068 percent, which was an increase of .002128 percent from its proportion measured as of June 30, 2021.

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OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

For the years ended December 31, 2022 and 2021, the District recognized OPEB expense of $63,851 and $60,597. At December 31, 2022 and 2021, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 87,541	$ 199,440
Changes in actuarial assumptions	137,547	113,338
Difference between projected and actual investment earnings	161,945	126,646
Changes in proportion and differences between employer contributions and proportionate share of contributions	77,364	14,827
	$ 464,397	$ 454,251

2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 126,259	$ 239,725
Changes in actuarial assumptions	212,869	747
Difference between projected and actual investment earnings	40,453	166,059
Changes in proportion and differences between employer contributions and proportionate share of contributions	70,478	20,185
	$ 450,059	$ 426,716

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Actuarial assumptions

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

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% to 10.30%, including inflation
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 6.20% 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.
Municipal Bond Index Rate	3.69%
Discount Rate	5.70%

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

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

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

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OLDHAM COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Core Fixed Income	10.00%	28.00%
Specialty Credit	10.00%	2.28%
Cash	0.00%	-0.91%
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.70% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2022. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the ACFR.

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

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

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.70%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage- point lower (4.70%) or 1-percentage-point higher (6.70%) than the current rate:

	1% Decrease (4.70%)	Current Discount Rate (5.70%)	1% Increase (6.70%)
District's proportionate share of the net OPEB liability	$ 1,162,634	$ 869,688	$ 627,519

Sensitivity Of The District's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Healthcare Cost Trend Rates

The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 646,594	$ 869,688	$ 1,137,582

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

NOTE 9 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2022 and 2021:

Source	2022	2021
Developers	$ 1,081,570	$ 779,372
Customers	188,003	268,507
	$ 1,269,573	$ 1,047,879

(Continued next page)

NOTE 10 – RENTAL AGREEMENTS

The District has entered into agreements to lease space on its water towers to various telephone customers. Rental income during the years ended December 31, 2022 and 2021 was $132,384 and $119,318. The following schedule represents future payments to be received.

Year	Amount
2023	$ 130,641
2024	134,337
2025	99,057
2026	101,476
2027	193,794
2028-2032	135,945
2033-2035	79,324
	$ 874,574

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District was insured for workers' compensation, general liability and automobile liability coverage under a retrospectively rated commercial policy. Any settlements did not exceed coverage for each of the past three years.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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

The District has construction commitments for ongoing projects.

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

REQUIRED SUPPLEMENTARY INFORMATION

OLDHAM COUNTY WATER DISTRICT

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

December 31, 2022

Last 10 Years *

	2022	2021	2020	2019
Proportion of the net pension liability	0.044076%	0.041950%	0.043067%	0.039290%
Proportionate share of the net pension liability	$ 3,186,260	$ 2,674,642	$ 3,303,127	$ 2,763,283
Covered payroll	$ 1,255,229	$ 1,104,874	$ 1,136,025	$ 1,062,616
Proportionate share of the net pension liability as percentage of covered payroll	253.8%	242.1%	290.8%	260.0%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.45%

	2018	2017	2016	2015
Proportion of the net pension liability	0.036242%	0.035037%	0.034977%	0.036791%
Proportionate share of the net pension liability	$ 2,207,248	$ 2,050,823	$ 1,722,114	$ 1,581,840
Covered payroll	$ 908,025	$ 869,703	$ 824,735	$ 872,018
Proportionate share of the net pension liability as percentage of covered payroll	243.1%	235.8%	208.8%	181.4%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	59.97%

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

OLDHAM COUNTY WATER DISTRICT

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

December 31, 2022

Last 10 Years *

	2022	2021
Proportion of the net OPEB liability	0.044068%	0.041940%
Proportionate share of the net OPEB liability	$ 869,688	$ 802,920
Covered payroll	$ 1,255,229	$ 1,104,874
Proportionate share of the net OPEB liability as percentage of covered payroll	69.3%	72.7%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%

	2020	2019	2018
Proportion of the net OPEB liability	0.043054%	0.039280%	0.036261%
Proportionate share of the net OPEB liability	$ 1,039,623	$ 660,672	$ 643,807
Covered payroll	$ 1,136,025	$ 1,062,616	$ 908,025
Proportionate share of the net OPEB liability as percentage of covered payroll	91.5%	62.2%	70.9%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%

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

OLDHAM COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

December 31, 2022

Last 10 Years *

	2022	2021	2020	2019
Contractually required contribution (actuarially determined)	$ 323,697	$ 231,420	$ 223,297	$ 201,182
Contribution in relation to the actuarially determined contributions	323,697	231,420	223,297	201,182
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 1,442,883	$ 1,138,005	$ 1,156,977	$ 1,130,932
Contributions as a percentage of covered payroll	22.43%	20.34%	19.30%	17.79%

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 145,797	$ 127,995	$ 109,171	$ 109,845
Contribution in relation to the actuarially determined contributions	145,797	127,995	109,171	109,845
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 945,862	$ 899,670	$ 824,784	$ 866,501
Contributions as a percentage of covered payroll	15.41%	14.23%	13.24%	10.62%

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

OLDHAM COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

December 31, 2022

Last 10 Years *

	2022	2021
Contractually required contribution (actuarially determined)	$ 63,851	$ 60,597
Contribution in relation to the actuarially determined contributions	63,851	60,597
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$ 1,442,883	$ 1,138,005
Contributions as a percentage of covered payroll	4.43%	5.32%

	2020	2019	2018
Contractually required contribution (actuarially determined)	$ 55,072	$ 56,606	$ 47,299
Contribution in relation to the actuarially determined contributions	55,072	56,606	47,299
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 1,156,977	$ 1,130,932	$ 945,862
Contributions as a percentage of covered payroll	4.76%	5.00%	5.00%

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

OLDHAM COUNTY WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2022

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2022.

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

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

2016 and 2017 – No changes.

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

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

2020, 2021 and 2022 – No changes.

OLDHAM COUNTY WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2022

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 through 2022

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

2018 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. The municipal bond rate increased from 3.56% to 3.62%.

2019 – The discount rate was changed from 5.85% to 5.68%. Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members. The municipal bond rate decreased from 3.62% to 3.13%.

2020 – The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. The municipal bond rate decreased from 3.13% to 2.45%.

2021 – The discount rate used to calculate the total OPEB liability decreased from 5.34% to 5.20%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The municipal bond rate decreased from 2.45% to 1.92%

2022 – The discount rate used to calculate the total OPEB liability increased from 5.20% to 5.70%. The municipal bond rate increased from 1.92% to 3.69%.

INTERNAL CONTROL AND FISCAL COMPLIANCE

HCA

Heartland CPAs and Advisors PLLC

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

Board of Commissioners
Oldham County Water District
Buckner, 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 Oldham County Water District, as of and for the year ended December 31, 2022, and the related notes to the financial statements and have issued our report thereon dated March 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oldham 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oldham County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Oldham County Water District's internal control.

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

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

310 Ring Road, P.O. Box 622 / Elizabethtown, KY 42702-0622 / Phone 270-769-6371 / Fax 270-765-7934
713 McDowell Blvd. / Bardstown, KY 40004 / Phone 502-348-1433 / Fax 502-349-6365

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oldham County Water District's financial statements are free of 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
March 23, 2023