# RATTLESNAKE RIDGE WATER DISTRICT

## FINANCIAL STATEMENTS AND OTHER INFORMATION
## FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

## TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Rattlesnake Ridge Water District
Grayson, Kentucky

### *Opinion*

We have audited the accompanying financial statements of the Rattlesnake Ridge Water District (the "District"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Other Matter*

The financial statements of the District for the year ended December 31, 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on August 18, 2022.

As part of our audit of the 2022 financial statements, we also audited adjustments described in Note (12) that were applied to restate the 2021 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2021 financial statements of the District other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2021 financial statements as a whole.

### *Responsibilities of Management for the Financial Statements*

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

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

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

***Other Information***

Management is responsible for the other information. The other information comprises the Schedule Required by Rural Development but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
December 22, 2023

# RATTLESNAKE RIDGE WATER DISTRICT
## STATEMENTS OF NET POSITION
## DECEMBER 31, 2022 AND 2021

| ASSETS | 2022 | 2021 |
|---|---|---|
| Unrestricted assets: | | |
| Cash and cash equivalents | $ 399,697 | $ 132,334 |
| Investment - KRWFC Sinking Fund | 55,030 | 55,511 |
| Customer accounts receivable, net | 302,350 | 291,851 |
| Inventory | 19,950 | 17,281 |
| Prepaid expenses | 1,963 | 1,100 |
| Total unrestricted assets | 778,990 | 498,077 |
| Restricted assets: | | |
| Cash and cash equivalents | 632,939 | 353,605 |
| Total restricted assets | 632,939 | 353,605 |
| Total current assets | 1,411,929 | 851,682 |
| Capital assets: | | |
| Land | 16,558 | 16,558 |
| Buildings and improvements | 106,905 | 106,905 |
| Utility plant in service | 40,181,160 | 40,181,160 |
| Other depreciable equipment | 385,892 | 385,892 |
| Construction in progress | 26,099 | - |
| | 40,716,614 | 40,690,515 |
| Less: accumulated depreciation | (19,901,194) | (18,944,152) |
| Net capital assets | 20,815,420 | 21,746,363 |
| Total assets | 22,227,349 | 22,598,045 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred outflows - Pension | 262,153 | 256,235 |
| Deferred outflows - OPEB | 201,293 | 283,177 |
| Total deferred outflows of resources | 463,446 | 539,412 |
| Total assets and deferred outflows of resources | $ 22,690,795 | $ 23,137,457 |

# RATTLESNAKE RIDGE WATER DISTRICT
## STATEMENTS OF NET POSITION (CONCLUDED)
## DECEMBER 31, 2022 AND 2021

| LIABILITIES | 2022 | 2021 |
|---|---|---|
| Current liabilities | | |
| Accounts payable | $ 6,500 | $ 22,898 |
| Accrued payroll liabilities | 25,281 | 33,987 |
| Other accrued liabilities | 24,436 | 24,436 |
| Current portion of long-term debt | 319,900 | 143,621 |
| Customer deposits | 3,640 | 7,590 |
| Accrued interest payable | 45,435 | 22,150 |
| Total current liabilities | 425,192 | 254,682 |
| | | |
| Long-term liabilities: | | |
| Bonds payable, net of current portion, plus premium | 8,384,849 | 8,703,518 |
| Notes payable, net of current portion | 20,000 | 30,000 |
| Net pension liability | 1,717,686 | 1,674,090 |
| Net OPEB liability | 468,966 | 502,562 |
| Total long-term liabilities | 10,591,501 | 10,910,170 |
| | | |
| Total liabilities | 11,016,693 | 11,164,852 |
| | | |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred inflows - Pension | 128,276 | 243,106 |
| Deferred inflows - OPEB | 213,934 | 236,225 |
| Total deferred inflows of resources | 342,210 | 479,331 |
| | | |
| **NET POSITION** | | |
| Net investment in capital assets | 12,090,671 | 12,814,610 |
| Restricted | 632,939 | 353,606 |
| Unrestricted | (1,391,718) | (1,674,942) |
| Total net position | 11,331,892 | 11,493,274 |
| | | |
| Total liabilities, deferred inflows of resources, and net position | $ 22,690,795 | $ 23,137,457 |

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

**RATTLESNAKE RIDGE WATER DISTRICT**
**STATEMENTS OF REVENUES, EXPENSES,**
**AND CHANGES IN NET POSITION**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

| | 2022 | 2021 |
|---|---|---|
| OPERATING REVENUES | | |
| Water revenue | $ 3,016,201 | $ 2,584,411 |
| Service charges and other income | 28,035 | 1,943 |
| Total operating revenues | 3,044,236 | 2,586,354 |
| OPERATING EXPENSES | | |
| Salaries and wages | 703,164 | 783,810 |
| Employee benefits | 367,451 | 593,182 |
| Office supplies | 49,658 | 78,069 |
| Professional services | 39,007 | 42,918 |
| Materials and supplies | 374,564 | 332,196 |
| Utilities and telephone | 355,169 | 318,753 |
| Insurance | 55,613 | 63,825 |
| Vehicle expense | 53,442 | 49,245 |
| Testing expense | 13,972 | 16,757 |
| Depreciation and amortization | 957,042 | 1,061,864 |
| Bad debt expense | - | 20,420 |
| Miscellaneous expense | 4,610 | 6,430 |
| Other taxes | 86,252 | 66,087 |
| Total operating expenses | 3,059,944 | 3,433,556 |
| Operating income (loss) | (15,708) | (847,202) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Investment income (loss) | 2,673 | - |
| Interest expense | (196,822) | (456,452) |
| Total non-operating revenues (expenses) | (194,149) | (456,452) |
| INCOME (LOSS) BEFORE CONTRIBUTIONS | (209,857) | (1,303,654) |
| CAPITAL CONTRIBUTIONS | 48,475 | 68,232 |
| CHANGE IN NET POSITION | (161,382) | (1,235,422) |
| NET POSITION, BEGINNING OF YEAR | 11,493,274 | 12,728,696 |
| NET POSITION, END OF YEAR | $ 11,331,892 | $ 11,493,274 |

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

# RATTLESNAKE RIDGE WATER DISTRICT
## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

| | 2022 | 2021 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | $ 3,029,787 | $ 2,635,270 |
| Cash payments for suppliers | (1,060,923) | (1,044,670) |
| Cash payments to employees for services | (1,121,770) | (1,376,992) |
| Net cash provided by operating activities | 847,094 | 213,608 |
| | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (26,099) | (64,050) |
| Interest paid on debt | (173,537) | (346,425) |
| Principal paid on long-term debt | (152,390) | (348,020) |
| Capital grants and contributions received | 48,475 | 68,232 |
| Net cash used for capital and related financing activities | (303,551) | (690,263) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | - | (902) |
| Sale of investments | 481 | - |
| Investment income | 2,673 | - |
| Net cash provided by (used for) investing activities | 3,154 | (902) |
| | | |
| Net increase (decrease) in cash and cash equivalents | 546,697 | (477,557) |
| | | |
| Cash and cash equivalents, beginning of year | 485,939 | 963,496 |
| | | |
| Cash and cash equivalents, end of year | $ 1,032,636 | $ 485,939 |
| | | |
| Cash and Cash Equivalents Reported As: | | |
| Unrestricted | $ 399,697 | $ 132,334 |
| Restricted | 632,939 | 353,605 |
| | $ 1,032,636 | $ 485,939 |

**RATTLESNAKE RIDGE WATER DISTRICT**
**STATEMENTS OF CASH FLOWS (CONCLUDED)**
**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | 2022 | 2021 |
|---|---|---|
| Operating income (loss) | $ (15,708) | $ (847,202) |
| Adjustments: | | |
| Depreciation | 957,042 | 1,061,864 |
| Net pension adjustment | (77,152) | 14,332 |
| Net OPEB adjustment | 25,997 | 73,897 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (10,499) | (27,873) |
| (Increase) decrease in inventories | (2,669) | 2,721 |
| (Increase) decrease in prepaid expenses | (863) | - |
| Increase (decrease) in customer deposits | (3,950) | (1,037) |
| Increase (decrease) in accounts payable and accrued wages | (25,104) | (63,094) |
| Net cash provided by operating activities | $ 847,094 | $ 213,608 |

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

The financial statements of the Rattlesnake Ridge Water District ("the District") have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body of governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below, and where appropriate, subsequent pronouncements will be referenced.

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

The Rattlesnake Ridge Water District (District) is a water utility which serves areas of Carter, Elliot, Lawrence, and Morgan Counties. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created in November, 1961. The District began operations in 1983. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

### Reporting Entity

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Standards*, include whether:

- the District is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, the District has no component units.

### Basis of Accounting

The District's operations are classified as an Enterprise Fund that accounts for the acquisition, operation, and maintenance of activities that are similar to a business. The Enterprise Fund is accounted for on the accrual basis of accounting. Revenues are recognized in the period earned, and expenses are recognized at the time liabilities are incurred. The Enterprise Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. The principal operating revenue of the District are charges to customers for sales and services. The District also recognizes as operating revenue connection fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for an Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for account balances deemed not collectible, and the time period used to depreciate the capital assets. Actual results could differ from estimated amounts.

### Assets, Liabilities, and Net Position

*Cash and cash equivalents.* For purposes of reporting cash flows, cash and cash equivalents consist of cash on hand, cash on deposit with banks, and certificates of deposit with an original maturity of less than three months (including amounts held in restricted asset accounts).

*Receivables.* Customer accounts receivable reflect revenues earned or accrued during the period from customers of the water system. These accounts are stated at face value less an allowance for doubtful accounts. The balance of the allowance for doubtful accounts as of December 31, 2022 and 2021 was $231,845 and $231,845, respectively.

*Grants Receivable.* Grants receivable consists of amounts disbursed that have not yet been reimbursed with approved grant funds.

*Inventories.* Inventories are valued at cost (first-in, first-out method).

*Investments.* Investments are carried at fair market value. The investment policy allows the District to invest in those investments authorized by KRS 66.480.

*Restricted Assets.* Certain proceeds of revenue bonds, as well as certain resources set aside for their payment, including reserve requirements, are classified as restricted assets on the statement of net position since their use is limited by applicable bond and note indentures.

*Capital Assets.* Expenditures for items having a useful life greater than one year are capitalized. Capital assets are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method as follows:

| | |
|---|---|
| Utility plant and system lines | 25-40 years |
| Pumping equipment and meters | 20 years |
| Furniture, fixtures and equipment | 5-20 years |

*Long-Term Obligations.* Long-term liabilities reported in the statement of net position include principal outstanding on notes and bonds.

*Net Position.* Net position is reported in three categories: net position invested in capital assets; restricted net position; and unrestricted net position. Net position invested in capital assets, represents capital assets, less accumulated depreciation, less outstanding principal of related debt. Restricted net position reflect funds held in various reserve accounts to meet the various covenants as may be specified and defined in the revenue bond and note indentures or as deemed appropriate by management. All other net position is considered unrestricted.

### Capital Grants/Contributions

Grants that are restricted to the purchase of property, plant and equipment are recorded as capital contributions, per GASB 33. The District received capital contributions, including grants and tap fees of $48,475 and $68,232 for the years ended December 31, 2022 and 2021, respectively.

### Reclassifications

Certain reclassifications have been made to the December 31, 2021 financial statements to conform with the 2022 presentation.

### Recent Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 was effective for the District beginning with its year ending December 31, 2022 and was applied retroactively by restating financial statements. The adoption of this standard did not have a material effect on the District's financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. GASB 96 will be effective for the District beginning with its year ending December 31, 2023. Management is currently evaluating the impact of this Statement on its financial statements.

In May 2022, the GASB issued Statement No. 99, *Omnibus 2022* ("GASB 99"), to provide guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements or during the due process on other pronouncements. GASB 99 addresses, among other matters:

- Accounting and financial reporting for exchange or exchange-like financial guarantees;
- Clarification of certain provisions of Statement No.:
  - 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,
  - 87, Leases,
  - 94, Public-Private and Public-Public Partnership and Availability Payment Arrangements,
  - 96, Subscription-Based Information Technology Arrangements (SBITA);
- Replacing the original deadline for use of the London Interbank Offered Rate (LIBOR) as a benchmark interest rate for hedges of interest rate risk of taxable debt with a deadline for when LIBOR ceases to be determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021;
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP);

- Disclosures related to non-monetary transactions; and
- Pledges of future revenues when resources are not received by the pledging government.

Requirements that relate to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures for non-monetary transactions, pledges of future revenues by pledging governments, clarifications of certain provisions in Statement No. 34, and terminology updates were effective upon issuance. Requirements related to leases, public-public and public-private partnerships (PPPs), and SBITAs will be effective for the District beginning with its year ending December 31, 2023. Requirements related to financial guarantees and derivative instruments will be effective for the District beginning with its year ending December 31, 2024. Adoption of the provisions required upon issuance of this statement did not have a material effect on the District's financial statements. Management is currently evaluating the impact of the remaining provisions of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections (an amendment of GASB Statement No. 62)* ("GASB 100"), which has as its primary objective to provide more straightforward guidance that is easier to understand and is more reliable, relevant, consistent, and comparable across governments for making decisions and assessing accountability. Improving the clarity of accounting and financial reporting requirements for accounting changes and error corrections will mean greater consistency in the application of these requirements in general.

GASB 100 prescribes accounting and financial reporting for each category of accounting change and error corrections, requiring that:

- Changes in accounting principle and error corrections be reported retroactively by restating prior periods;
- Changes in accounting estimate be reported prospectively by recognizing the change in the current period; and
- Changes to and within the financial reporting entity be reported by adjusting beginning balances of the current period.
- Requires that governments disclose the effects of each accounting change and error correction on beginning balances in a tabular format.

The requirements of GASB 100 will be effective for accounting changes and error corrections made by the District beginning with its year ending December 31, 2024. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences* ("GASB 101"), which supersedes the guidance in Statement No. 16, *Accounting for Compensated Absences*, issued in 1992. GASB 101 aligns recognition and measurement guidance for all types of compensated absences under a unified model. It also requires that a liability for specific types of compensated absences not be recognized until the leave is used. Additionally, it establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. For example, a liability for leave that has not been used would be recognized if the leave:

- Is attributable to services already rendered;
- Accumulates; and
- Is more likely than not to be used for time off or otherwise paid or settled. Some exceptions to this general rule include parental leave, military leave and jury duty leave for which a liability would not be recognized until the leave commences.

Additionally, GASB 101 (1) provides an alternative to the existing requirement to disclose the gross annual increases and decreases in long-term liability for compensated absences, allowing governments to disclose only the net annual change in the liability as long as it is identified as such; and (2) removes the disclosure of the government funds used to liquidate the liability for compensated absences. The requirements of GASB 101 will be effective for the District beginning with its year ending December 31, 2024. Management is currently evaluating the impact of this Statement on its financial statements.

## (2) RESTRICTED CASH AND CASH EQUIVALENTS

As of December 31, 2022 and 2021, restricted cash was as follows:

| | 2022 | 2021 |
|---|---|---|
| Bond and Interest Sinking Fund | $ 432,297 | $ 153,465 |
| Depreciation Fund | 200,642 | 200,140 |
| | $ 632,939 | $ 353,605 |

## (3) CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's funds on deposit with the banks may not be returned to the District. The District's cash and cash equivalents consist of checking and savings accounts with local banks. This District does not have a deposit policy for custodial credit risk. At December 31, 2022, the carrying amount of the District's deposits was $1,032,636 and the bank balances totaled $1,058,154. The bank balances are categorized as follows:

| | |
|---|---|
| Amount insured by the FDIC | $ 451,999 |
| Uncollateralized | 606,155 |
| Total | $ 1,058,154 |

## (4) CAPITAL ASSETS

*Changes in Capital Assets.* The following is a summary of changes in capital assets and accumulated depreciation for the year ended December 31, 2022 and 2021:

| December 31, 2022 | Balance Jan. 1, 2022 | Additions | Deletions | Balance Dec. 31, 2022 |
|---|---|---|---|---|
| Non-depreciable: | | | | |
| Land | $ 16,558 | $ - | $ - | $ 16,558 |
| Construction in progress | - | 26,099 | - | 26,099 |
| Depreciable: | | | | |
| Plant in service | 39,945,329 | - | - | 39,945,329 |
| Other depreciable assets | 728,628 | - | - | 728,628 |
| | 40,690,515 | 26,099 | - | 40,716,614 |
| Accumulated depreciation | 18,944,152 | 957,042 | - | 19,901,194 |
| | $ 21,746,363 | $ (930,943) | $ - | $ 20,815,420 |

| December 31, 2021 | Balance Jan. 1, 2021 | Additions | Deletions | Balance Dec. 31, 2021 |
|---|---|---|---|---|
| Non-depreciable: | | | | |
| Land | $ 16,558 | $ - | $ - | $ 16,558 |
| Construction in progress | 4,082,069 | 27,720 | 4,109,789 | - |
| Depreciable: | | | | |
| Plant in service | 35,835,540 | 4,109,789 | - | 39,945,329 |
| Other depreciable assets | 692,298 | 36,330 | - | 728,628 |
| | 40,626,465 | 4,173,839 | 4,109,789 | 40,690,515 |
| Accumulated depreciation | 17,882,288 | 1,061,864 | - | 18,944,152 |
| | $ 22,744,177 | $ 3,111,975 | $ 4,109,789 | $ 21,746,363 |

## (5) LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the District for the year ended December 31, 2022 and 2021:

| December 31, 2022: | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Notes payable | $ 43,621 | $ - | $ 13,621 | $ 30,000 | $ 10,000 |
| Bonds payable | 8,640,600 | - | 130,000 | 8,510,600 | 309,900 |
| Bond premium | 192,918 | - | 8,769 | 184,149 | - |
| Total long-term debt | $ 8,877,139 | $ - | $ 152,390 | $ 8,724,749 | $ 319,900 |

| December 31, 2021: | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Notes payable | $ 56,961 | $ - | $ 13,340 | $ 43,621 | $ 13,621 |
| Bonds payable | 9,158,100 | 3,170,000 | 3,687,500 | 8,640,600 | 130,000 |
| Bond premium | - | 192,918 | - | 192,918 | - |
| Total long-term debt | $ 9,215,061 | $3,362,918 | $ 3,700,840 | $ 8,877,139 | $ 143,621 |

Notes payable included in long-term debt in the accompanying financial statements includes the following at December 31, 2022 and 2021:

| | 2022 | (As restated) 2021 |
|---|---|---|
| $135,000 note payable to the Kentucky Area Development District Financing Trust dated April 14, 2005, due in semi-Payments, with interest of 3%-5.3%, Maturing May 1, 2025. | $ 30,000 | $ 40,000 |
| Corp of Engineers 6.625%, dated May 21, 1984 with an original maturity date of May 21, 2014. | - | 3,621 |
| Total Notes Payable | $ 30,000 | $ 43,621 |

The annual requirements to amortize the notes payable as of December 31, 2022 (including interest payments) are as follows:

| Year Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 10,000 | $ 1,325 | $ 11,325 |
| 2024 | 10,000 | 795 | 10,795 |
| 2025 | 10,000 | 265 | 10,265 |
| | $ 30,000 | $ 2,385 | $ 32,385 |

Bonds Payable included in long-term debt in the accompanying financial statements includes the following at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| $900,000 Water Revenue Bonds, 2001 series A, maturing through January 1, 2041, with interest at 4.50% | $ 582,000 | $ 582,000 |
| $600,000 Water Revenue Bonds, 2001 series B, maturing through January 1, 2041, with interest at 4.50% | 41,600 | 41,600 |
| $1,336,000 Water Revenue Bonds, 2011 series A, maturing through January 1, 2051, with interest at 2.00% | 1,127,000 | 1,127,000 |
| $1,146,000 Water Revenue Bonds, 2011 series B, maturing through January 1, 2051, with interest at 2.00% | 955,000 | 955,000 |
| $200,000 Water Revenue Bonds, 2015 series, maturing through January 1, 2055, with interest at 3.00% | 183,000 | 183,000 |
| $2,490,000 Water Revenue Bonds, | | |

| | | |
|---|---|---|
| 2019 series A, maturing through January 1, 2059, with interest at 2.375% | 2,382,000 | 2,382,000 |
| $665,000 Water Revenue Bonds, 2008 series C, maturing through January 1, 2048, with interest at 4.125% | 155,000 | 200,000 |
| $3,170,000 KRWFC Water Revenue Bonds, 2020 series, maturing through January 1, 2044, with interest at 1.75% | 3,085,000 | 3,170,000 |
| Total Bonds Payable | $ 8,510,600 | $ 8,640,600 |

The annual requirements to amortize the bonds as of December 31, 2022 (including interest payments) are as follows:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 309,900 | $ 217,509 | $ 527,409 |
| 2024 | 323,500 | 205,933 | 529,433 |
| 2025 | 342,100 | 193,824 | 535,924 |
| 2026 | 295,100 | 182,471 | 477,571 |
| 2027 | 303,800 | 172,103 | 475,903 |
| 2028-2032 | 1,602,900 | 713,187 | 2,316,087 |
| 2033-2037 | 1,539,600 | 520,161 | 2,059,761 |
| 2038-2042 | 1,376,200 | 345,642 | 1,721,842 |
| 2043-2047 | 929,500 | 214,311 | 1,143,811 |
| 2048-2052 | 815,000 | 120,320 | 935,320 |
| 2053-2057 | 478,000 | 51,084 | 529,084 |
| 2058-2059 | 195,000 | 4,626 | 199,626 |
| Totals | $ 8,510,600 | $ 2,941,171 | $11,451,771 |

## (6) RESTRICTED ASSETS

### SINKING FUND

On or before the 20th day of each month and after the required payment to the Operation and Maintenance Fund Account, the District is required to set aside an amount into a special account known as the "Rattlesnake Ridge Water District, Bond and Interest Sinking Fund". The amount to be set aside and paid into the Sinking Fund each month shall be sums equal to the following amounts:

1) A sum equal to one sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
2) A sum equal to one twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the reserve at December 31, 2022 was $418,655. The District had set aside $432,297 at December 31, 2022 into a restricted account, resulting in the account being over-funded by $13,642.

### DEPRECIATION FUND

The District is required to deposit funds into a Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and shall be withdrawn and used, upon appropriate certification to Rural Development, for the purpose of paying the cost of constructing replacements, extensions, additions and/or improvements to the project. The required balance at December 31, 2022 was $ 199,774. District had set aside $200,642 at December 31, 2022 into a restricted account, and therefore the account is over-funded by$ 868.

## (7) PENSION PLAN

County Employees Retirement System

*Plan description*: Substantially all full-time classified employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at https://kyret.ky.gov.

*Benefits provided*: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

*Contributions*: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members. For the year ending December 31, 2022, employers were required to contribute 26.95% (22.78% - pension, 4.17% - insurance) for the period January 1, 2022 through June 30, 2022 and 26.79% (23.40% - pension, 3.39% - insurance) for the period July 1, 2022 through December 31, 2022 of the member's salary. During the years ending December 31, 2022 and 2021, the District contributed $154,453 and $149,823 to the CERS pension plan, respectively. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

**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 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2021. An expected total pension liability as of June 30, 2022 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2022. At June 30, 2022, the District's proportion was 0.023761%.

For the years ended December 31, 2022 and 2021, the District recognized pension expense of $162,404 and $246,602, respectively. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 1,836 | $ 15,297 |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 44,036 | - |
| Changes in proportion and differences between District contributions and proportionate share of Contributions | 61,828 | 112,979 |

| | | |
|---|---|---|
| District contributions subsequent to the measurement date | 154,453 | - |
| Total | $ 262,153 | $ 128,276 |

The deferred outflows at December 31, 2021 were $256,235 and the deferred inflows were $243,106. At December 31, 2022, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of $154,453. These contributions will be recognized as a reduction of the net pension liability in the year ended December 31, 2023.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These amounts will be recognized in pension expense as follows:

| Year | |
|---|---|
| 2023 | $ (5,023) |
| 2024 | (50,064) |
| 2025 | (14,434) |
| 2026 | 48,945 |
| 2027 | - |
| | $ (20,576) |

*Actuarial Methods and Assumptions*: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2021. The financial reporting actuarial valuation as of June 30, 2022, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation Date | June 30, 2021 |
| Measurement Date | June 30, 2022 |
| Experience Study | July 1, 2013 - June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of pay |
| Remaining Amortization Period | 29 years, closed |
| Asset Valuation Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Payroll Growth | 2.00% |
| Inflation | 2.30% |
| Salary Increase | 3.30% to 10.30%, varies by service |
| Investment Rate of Return | 6.25%, net of pension plan investment expense, including inflation |

There have been no actuarial assumptions or method changes since June 30, 2021. Additionally, there have been no plan provision changes that would materially impact the total pension liability since June 30, 2012.

The mortality table used for active members is PUB-2010 General Mortality Table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, 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, is utilized. For disabled members, the mortality table used is the 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 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 rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

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

*Discount Rate*: The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*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%, 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%) or 1-percentage-point higher (7.25%) 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 | $ 2,146,894 | $ 1,717,686 | $ 1,362,695 |

The net pension liability was $1,674,090 at December 31, 2021.

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publicly available at https://kyret.ky.gov.

*Payables to the pension plan:* At December 31, 2022 and 2021, the payables to CERS for pension and OPEB in total were $15,281 and $22,887, respectively.

## (8) OTHER POSTEMPLOYMENT BENEFIT ("OPEB") PLAN

County Employees Retirement System Insurance Fund

*Plan description*: The County Employees Retirement System ("CERS") Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at https://kyret.ky.gov.

*Benefits provided*: CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive $10 toward the monthly premium for each full year of service.

*Contributions:* CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending December 31, 2022, employers were required to contribute 26.95% (22.78% - pension, 4.17% - insurance) for the period January 1, 2022 through June 30, 2022 and 26.79% (23.40% - pension, 3.39% - insurance) for the period July 1, 2022 through December 31, 2022 of the member's salary. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the years ending December 31, 2022 and 2021, the District contributed $22,376 and $27,405 to the CERS Insurance Fund, respectively. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

*Implicit Subsidy:* The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS Insurance Fund

At December 31, 2022, the District reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2021. An expected total OPEB liability as of June 30, 2022 was determined using standard roll-forward techniques. The District's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2022. At June 30, 2022, the District's proportion was 0.023763%.

For the years ended December 31, 2022 and 2021, the District recognized OPEB expense of $75,072 and $79,262, including an implicit subsidy of $15,170 and $14,859, respectively. At December 31, 2022, the

District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 47,205 | $ 107,545 |
| Changes of assumptions | 74,170 | 61,116 |
| Net difference between projected and actual earnings on pension plan investments | 19,034 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 38,508 | 45,273 |
| District contributions subsequent to the measurement date | 22,376 | - |
| Total | $ 201,293 | $ 213,934 |

The deferred outflows at December 31, 2021 were $283,177 and the deferred inflows were $236,225. At December 31, 2022, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of $22,376. These contributions will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2023.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These amounts will be recognized in pension expense as follows:

| Year | |
|---|---|
| 2023 | $ 3,063 |
| 2024 | (180) |
| 2025 | (31,443) |
| 2026 | (6,457) |
| 2027 | - |
| | $ (35,017) |

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

| | |
|---|---|
| Valuation Date | June 30, 2021 |
| Measurement Date | June 30, 2022 |
| Experience Study | July 1, 2013 - June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percent of Pay |
| Remaining Amortization Period | 29 Years, Closed |
| Payroll Growth Rate | 2.00% |
| Asset Valuation Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 2.30% |
| Salary Increase | 3.30% to 10.30%, varies by service |
| Investment Rate of Return | 6.25% |
| Healthcare Trend Rates Pre-65 | Initial trend starting at 6.20% at January 1, 2024 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. |
| Post-65 | Initial trend starting at 9.00% at January 1, 2024 and |

| | |
|---|---|
| | gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. |
| Mortality | |
| Pre-retirement | PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. |
| Post-retirement (non-disabled) | 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. |
| Post-retirement (disabled) | 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 single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021, valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material assumption changes.

Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003, by $5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA. The total OPEB liability as of June 30, 2022, is determined using these updated benefit provisions. There were no other material plan provision changes.

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 rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| **Equity** | **60.00%** | |
| Public Equity | 50.00% | 4.45% |
| Private Equity | 10.00% | 10.15% |
| **Fixed Income** | **20.00%** | |
| Core Bonds | 10.00% | 0.28% |
| Specialty Credit/High Yield | 10.00% | 2.28% |
| Cash | 0.00% | (0.91)% |
| **Inflation Protected** | **20.00%** | |
| Real Estate | 7.00% | 3.67% |
| Real Return | 13.00% | 4.07% |

| | | |
|---|---|---|
| **Expected Real Return** | **100.00%** | **4.28%** |
| **Long Term Inflation Assumption** | | **2.30%** |
| **Expected Nominal Return for Portfolio** | | **6.58%** |

*Discount Rate:* The discount rate used to measure the total OPEB liability was 5.70%. 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. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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 | $ 626,933 | $ 468,966 | $ 338,380 |

The net OPEB liability was $502,562 at December 31, 2021.

*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 trend rate | 1% Increase |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | $ 348,666 | $ 468,966 | $ 613,424 |

*OPEB plan fiduciary net position:* Detailed information about the insurance plan's fiduciary net position is available in the separately issued CERS financial report which is publicly available at https://kyret.ky.gov.

*Payables to the OPEB plan:* At December 31, 2022 and 2021, the payables to CERS for pension and OPEB in total were $15,281 and $22,887, respectively.

## (9) CONCENTRATIONS OF CREDIT

All of the District's revenues, most of which are comprised of residential billings, are generated by customers located in its four-county area.

## (10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District provides for risk financing by purchasing coverage from commercial insurance companies.

## (11) COMMITMENTS AND CONTINGENCIES

The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

## (12) FAIR VALUE MEASUREMENTS

The District has determined the fair value of certain assets and liabilities through the application of GASB 72, *Fair Value Measurements and Application.*

Under GASB 72, the District groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following tables present the District's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

| December 31, 2022 | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Mutual Funds | $ 55,030 | $ 55,030 | $ - | $ - |

| December 31, 2021 | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Mutual Funds | $ 55,511 | $ 55,511 | $ - | $ - |

## (13) PRIOR PERIOD ADJUSTMENT

During 2022, the District discovered that previously reported debt and customer deposits were erroneously overstated. Therefore, the District restated the following line items to properly reflect only the debt and customer deposit balances as of and for the year ended December 31, 2021:

| | As previously reported | As restated |
|---|---|---|
| *Statements of Net Position:* | | |
| Current portion of long-term debt | $ 143,340 | $ 143,621 |
| Bonds payable, net of current portion | 8,690,178 | 8,703,518 |
| Notes payable, net of current portion | 98,235 | 30,000 |
| Customer deposits | 112,228 | 7,590 |
| Unrestricted Net Position | (1,834,194) | (1,674,942) |

# REQUIRED SUPPLEMENTARY INFORMATION

RATTLESNAKE RIDGE WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION AND OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED DECEMBER 31, 2022

| | Reporting Fiscal Year (Measurement Date) 12/31/2022 (6/30/2022) | Reporting Fiscal Year (Measurement Date) 12/31/2021 (6/30/2021) | Reporting Fiscal Year (Measurement Date) 12/31/2020 (6/30/2020) | Reporting Fiscal Year (Measurement Date) 12/31/2019 (6/30/2019) | Reporting Fiscal Year (Measurement Date) 12/31/2018 (6/30/2018) | Reporting Fiscal Year (Measurement Date) 12/31/2017 (6/30/2017) | Reporting Fiscal Year (Measurement Date) 12/31/2016 (6/30/2016) | Reporting Fiscal Year (Measurement Date) 12/31/2015 (6/30/2015) |
|---|---|---|---|---|---|---|---|---|
| **COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:** | | | | | | | | |
| District's proportion of the net pension liability | 0.024% | 0.026% | 0.024% | 0.023% | 0.022% | 0.023% | 0.023% | 0.021% |
| District's proportionate share of the net pension liability | $ 1,717,686 | $ 1,674,099 | $ 1,841,087 | $ 1,569,987 | $ 1,284,157 | $ 1,145,666 | $ 905,050 | $ 575,000 |
| District's covered payroll | $ 724,276 | $ 638,875 | $ 593,281 | $ 631,511 | $ 624,849 | $ 603,055 | $ 613,228 | $ 608,801 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 237.159% | 262.039% | 310.323% | 248.608% | 205.515% | 189.977% | 147.588% | 94.448% |
| Plan fiduciary net position as a percentage of the total pension liability | 52.420% | 57.330% | 47.810% | 50.450% | 53.540% | 53.320% | 55.500% | 59.970% |
| **COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:** | | | | | | | | |
| District's proportion of the net OPEB liability | 0.024% | 0.026% | 0.080% | 0.073% | 0.069% | | | |
| District's proportionate share of the net OPEB liability | $ 468,966 | $ 502,562 | $ 1,350,189 | $ 1,296,828 | $ 1,382,693 | | | |
| District's covered payroll | $ 724,276 | $ 638,875 | $ 593,281 | $ 631,511 | $ 624,849 | | | |
| District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 64.750% | 78.664% | 227.580% | 205.353% | 221.284% | | | |
| Plan fiduciary net position as a percentage of the total OPEB liability | 60.95% | 62.91% | 51.67% | 60.40% | 57.60% | | | |

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**RATTLESNAKE RIDGE WATER DISTRICT**
**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS**
**COUNTY EMPLOYEES RETIREMENT SYSTEM**
**FOR THE YEAR ENDED DECEMBER 31, 2022**

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| **COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:** | | | | | | | | | |
| Contractually required contribution | $ 154,453 | $ 149,823 | $ 91,333 | $ 82,429 | $ 74,517 | $ 66,108 | $ 62,917 | $ 76,784 | $ 76,732 |
| Contributions in relation to the contractually required contribution | 154,453 | 149,823 | 91,333 | 82,429 | 74,517 | 66,108 | 62,917 | 76,784 | 76,732 |
| Contribution deficiency (excess) | - | - | - | - | - | - | - | - | - |
| District's covered payroll | $ 692,925 | $ 724,276 | $ 638,875 | $ 593,281 | $ 631,511 | $ 624,849 | $ 603,055 | $ 613,228 | $ 608,801 |
| District's proportionate share of the contractually required contributions as a percentage of its covered-employee payroll | 22.29% | 20.69% | 14.30% | 13.89% | 11.80% | 10.58% | 10.43% | 12.52% | 12.60% |
| **COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:** | | | | | | | | | |
| Contractually required contribution | $ 22,376 | $ 27,405 | $ 29,618 | $ 26,755 | $ 25,266 | $ 24,200 | $ 23,152 | $ 23,782 | $ 23,554 |
| Contributions in relation to the contractually required contribution | 22,376 | 27,405 | 29,618 | 26,755 | 25,266 | 24,200 | 23,152 | 23,782 | 23,554 |
| Contribution deficiency (excess) | - | - | - | - | - | - | - | - | - |
| District's covered payroll | $ 692,925 | $ 724,276 | $ 638,875 | $ 593,281 | $ 631,511 | $ 624,849 | $ 603,055 | $ 613,228 | $ 608,801 |
| District's proportionate share of the contractually required contributions as a percentage of its covered-employee payroll | 3.23% | 3.78% | 4.64% | 4.51% | 4.00% | 3.87% | 3.84% | 3.88% | 3.87% |

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

## (1) CHANGES OF ASSUMPTIONS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 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.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30% (varies by service).
- The mortality table used for pre-retirement is PUB-2010 General Mortality table, for the Non-Hazardous Systems, and PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for post-retirement (non-disabled) is 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 2022.
- The mortality table used for post-retirement (disabled) is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

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

- Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2019.

## (2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

| | |
|---|---|
| Valuation Date | June 30, 2020 |
| Experience Study | July 1, 2013 - June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll |
| Remaining Amortization Period | 30 years closed period at June 30, 2019 (Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases) |
| Payroll growth | 2.00% |
| Asset Valuation Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 2.30% |
| Salary Increase | 3.30% to 10.30%, varies by service |
| Investment Rate of Return | 6.25% |
| Phase-in Provision | Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018 |
| Mortality | 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 |

## (3) CHANGES OF BENEFITS

CERS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2022 is determined using these updated benefit provisions.

Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for qualified members who become "totally and permanently disabled" as a result of a duty-related disability. The minimum disability benefit increased from 25% of the member's monthly final rate of pay to 75% of the member's monthly average pay. The insurance premium for the member, the member's spouse, and the member's dependent children shall also be paid in full by the System. For non-hazardous members to be eligible for this benefit, they must be working in a position that could be certified as a hazardous position. There were no other material plan provision changes since the prior valuation.

## RATTLESNAKE RIDGE WATER DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB

## FOR THE YEAR ENDED DECEMBER 31, 2022

### (1) CHANGES OF ASSUMPTIONS

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30% (varies by service).
- The mortality table used for pre-retirement is PUB-2010 General Mortality table, for the Non-Hazardous Systems, and PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for post-retirement (non-disabled) is 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 post-retirement (disabled) is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

For the June 30, 2020 measurement date, the assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The assumed impact of the Cadillac Tax (previously a 0.9% load on employer paid non-Medicare premiums for those who became participants prior to July 1, 2003) was removed to reflect its repeal since the prior valuation.

The following change was made by the Board of Trustees and reflected in the valuation performed as of June 30, 2022:

- The single discount rates used to calculate the total OPEB liability increased from 5.34% to 5.70%.

### (2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2022:

| | |
|---|---|
| Experience Study | July 1, 2008 - June 30, 2013 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percent of Pay |
| Remaining Amortization Period | 30 years, closed period at June 30, 2019 (Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases) |
| Payroll Growth Rate | 2.00% |

| | |
|---|---|
| Asset Valuation Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 2.30% |
| Salary Increase | 3.30% to 11.55%, varies by service |
| Investment Rate of Return | 6.25% |
| Healthcare Trend Rates | |
| Pre - 65 | Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement. |
| Post – 65 | Initial trend starting at 6.30% on January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement. Additionally, Humana provided "Not to Exceed" 2022 Medicare premiums, which were incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 1, 2022. |
| Phase-in Provision | Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018. |
| Mortality | 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. |

## (3) CHANGES OF BENEFITS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2022, is determined using these updated benefit provisions.

Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions.

Senate Bill 209 passed during the 2022 legislative session increased the insurance dollar contribution for members hired on or after July 1, 2003 by $5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023.

# OTHER INFORMATION

# RATTLESNAKE RIDGE WATER DISTRICT
# OTHER INFORMATION REQUIRED BY RURAL DEVELOPMENT
# DECEMBER 31, 2022

| INSURANCE COVERAGE | AMOUNT | | EXPIRATION DATE OF POLICY |
|---|---|---|---|
| General Liability | $ | 3,000,000 | 4/1/2023 |
| Umbrella Policy | $ | 3,000,000 | 4/1/2023 |
| Property – Building and Contents | $ | 8,489,394<br>100% Co-Insurance | 4/1/2023 |
| Automobiles | $ | 1,000,000 | 4/1/2023 |
| Employee Theft | $ | 1,000,000 | 3/4/2023 |
| Encroachment Bonds | $ | 5,000 | |
| Workers Compensation | | Statutory | 12/31/2022 |

## Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2022, accounts receivable were aged as follows:

| | Amount | |
|---|---|---|
| Current | $ | 193,002 |
| Over 60 Days | | 11,013 |
| Over 90 Days | | 228,093 |
| Total | $ | 432,108 |

At December 31, 2022, the District carried a reserve for possible uncollectible accounts of $231,845.

| COMMISSIONER | TERM EXPIRES |
|---|---|
| Bill Gilbert, Chairman | Expired |
| Randy Steagall, Secretary | Expired |
| Jason Carroll, Treasurer | 8/2027 |
| Steve Ison | 7/2025 |
| Mike Copley | 11/2027 |

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• Web www.kgsgcpa.com Member of Allinial GLOBAL.

# 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
Rattlesnake Ridge Water District
Grayson, 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 the Rattlesnake Ridge Water District (the "District") as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2023.

**Report on Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

**Report on Compliance and Other Matters**

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

**Purpose of this Report**

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

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
December 22, 2023