SANDY HOOK WATER DISTRICT

AUDIT OF FINANCIAL STATEMENTS

For The Year Ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Sandy Hook Water District
Sandy Hook, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Sandy Hook 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 business-type activities of the District, as of December 31, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

To the Board of Commissioners
Sandy Hook Water District
Sandy Hook, Kentucky

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement 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 judgement, 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 the District's Proportionate Share of the Net Pension Liability, the Schedule of the District's Pension Contributions, the Schedule of the District's Proportionate Share of the Net OPEB Liability, and the Schedule of the District's OPEB Contributions listed in the table of contents 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

To the Board of Commissioners
Sandy Hook Water District
Sandy Hook, Kentucky

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 the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023, on our consideration of Sandy Hook Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Sandy Hook Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sandy Hook Water District's internal control over financial reporting and compliance.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky
March 29, 2023

SANDY HOOK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2022

ASSETS		
CURRENT ASSETS		
Cash - Unrestricted	$	294,706
Cash - Restricted		294,114
Accounts Receivable		99,727
Prepaid Expenses		7,145
Total Current Assets		695,692
NONCURRENT ASSETS		
Capital Assets - Net of Accumulated Depreciation		
Land		206,998
Construction in Progress		1,246,696
Land Improvements		2,566
Buildings and Building Improvements		595,584
Wells and Springs		270,254
Electric Pumping Equipment		16,168
Transmission and Distribution		4,611,857
Treatment Plant		7,262
Miscellaneous Equipment		6,874
Transportation Equipment		13,141
Total Capital Assets - Net of Accumulated Depreciaiton		6,977,400
Cash - Restricted		271,439
Total Noncurrent Assets		7,248,839
TOTAL ASSETS		7,944,531
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pension		124,137
Deferred Outflows - OPEB		52,314

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

SANDY HOOK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2022

LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accrued Interest	22,577
Due to City of Sandy Hook	42,374
Accrued Taxes	4,632
Accrued Salaries	1,611
Unearned Revenues	6,381
Accounts Payable	11,328
Loan Payable - RWFC Interim Financing	1,306,385
Bonds Payable	55,500
Total Current Liabilities	1,450,788
LONG-TERM LIABILITIES	
Bonds Payable	1,075,482
Compensated Absenses	11,000
Total Long-Term Liabilities	1,086,482
OTHER LIABILITIES	
Net Pension Liabilities	573,839
Net OPEB Liabilities	156,638
Customer Deposits	21,516
Total Other Liabilities	751,993
TOTAL LIABILITIES	3,289,263
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows - Pension	97,871
Deferred Inflows - OPEB	90,298
NET POSITION	
Invested in Capital Assets, Net of Related Debt	4,540,033
Restricted for:	
Debt Service	251,141
Depreciation Reserve	241,900
Sewer Collections	42,374
Unrestricted	(431,898)
TOTAL NET POSITION	4,643,550
TOTAL LIABILITIES AND NET POSITION	$ 8,120,982

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

SANDY HOOK WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSTION
For The Year Ended December 31, 2022

OPERATING REVENUES		
Water Sales	$	824,556
Service Revenues		11,980
Miscellaneous Revenues		31,433
Total Operating Revenues		867,969
OPERATING EXPENSES		
Water Expenses		
Advertising		525
Depreciation		191,692
Dues and Subscriptions		10,194
Legal and Accounting Services		9,000
Miscellaneous		29,674
Office Supplies		3,115
Payroll Taxes		17,939
Postage and Freight		7,463
Professional Services		2,596
Insurance		67,639
Workers Comp		4,027
Repairs and Maintenance		68,225
Retirement		48,344
OPEB		24,896
Salaries and Wages		262,377
Supplies and Testing		20,239
Taxes and Licenses		824
Telephone and Utilities		77,537
Travel and Automobile		16,557
Total Operating Expenses		862,863
NET OPERATING INCOME (LOSS)		5,106

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

SANDY HOOK WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For The Year Ended December 31, 2022

NON OPERATING REVENUES (EXPENSES)	
Interest Expense	(41,887)
Interest Income	856
Total Non Operating Revenues (Expenses)	(41,031)
Net Change in Net Position	(35,925)
Net Position - Beginning	4,679,475
Total Net Position - Ending	$ 4,643,550

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

SANDY HOOK WATER DISTRICT
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from Customers	$	804,305
Payments for Sewer Collection Fees		11,519
Miscellaneous Revenue		33,812
Payments to Vendors		(274,865)
Payments for Payroll and Related Expenses		(406,785)
Net Cash Provided (Used) by Operating Activities		167,986
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Asset Additions		(1,234,198)
Interim Loan Financing		1,306,385
Interest Paid on Debt		(46,460)
Payments on Capital Debt		(51,500)
Net Cash Provided (Used) by Capital and Related Financing Activities		(25,773)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest		856
Net Cash Provided (Used) by Investing Activities		856
INCREASE (DECREASE) IN CASH		143,069
CASH AT BEGINNING OF YEAR		717,190
CASH AT END OF YEAR	$	860,259

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

SANDY HOOK WATER DISTRICT
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2022

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

Net Operating Income (Loss)	$	5,106
Adjustments to Reconcile Net Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation		191,692
Changes in Assets/Liabilities:		
Accounts Receivable		(18,389)
Accounts Payable		(3,027)
Accrued Taxes		(684)
Accrued Retirement		(5,401)
Accrued Insurance		(5,080)
Unearned Income		(9,036)
Due to City of Sandy Hook		1,919
Customer Deposits		(1,861)
Net Pension Liability		25,968
OPEB Liability		(7,832)
Deferred Inflows		4,558
Deferred Outflows		(9,947)
Net Cash Provided (Used) by Operating Activities	$	167,986

Supplementary Information

Interest Expensed	$	41,887

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Sandy Hook Water District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Organization & Activity

The District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in 1957. The purpose of the District is to provide water services to residents in Sandy Hook, Kentucky and the surrounding area.

Financial Reporting Entity

The District complies with GASB Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations Are Component Units." These Statements establish standards for defining and reporting on the financial reporting entity. They define component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not considered a component unit of any other governmental unit for financial reporting purposes.

The District considered all potential component units in determining what organizations should be included in its financial statements. Based on an evaluation of the established criteria, management determined that there were no component units to include in the District's financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Net Position is segregated into "invested in capital assets, net of related debt;" "restricted;" and "unrestricted" components.

The District's various bond resolutions or ordinances require the establishment of certain accounts, which are referred to as "funds". These required accounts are maintained as part of accounting records of the Water Fund. They include the Sinking Fund (Debt Service), Revenue Fund and Depreciation Reserve Fund (Repairs and Maintenance). These are not "funds" as the term is used in generally accepted accounting principles, but are separate "accounts" used to delineate the accounting and reporting for bond related money and repayment security requirements. The balances and activity that occur in these various accounts represent specific segments of the Water Utility enterprise fund as reported in the District's financial statements.

The enterprise fund used by the District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as 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.

Budgeting

In accordance with Kentucky Revised Statute 65.065, the District is required to submit a balanced budget to the Elliott County Fiscal Court prior to December 1. The budget includes proposed expenditures and means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at calendar year end.

Allowance for Doubtful Accounts

No allowance for doubtful accounts has been established. The District considers all receivables to be fully collectible based on their strict cut-off policy. If amounts become uncollectible, the amounts due are offset by any customer deposit held and the balance charged to operations when that determination is made.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivables

Accounts receivables are stated at face amount and include billed and unbilled receivables due as of December 31, 2022. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 28, 2022 was for customer usage from approximately November 26 through December 25, 2022. The entire amount is considered accounts receivable as of December 31, 2022. The billing mailed on January 27, 2023 was for usage from approximately December 26, 2022 through January 25, 2023. Approximately five days of this billing is considered unbilled receivables at December 31, 2022.

Deposits and Investments

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Property, Plant and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets, e.g., water distribution systems, and similar items, are reported as a component of noncurrent assets in the basic financial statements. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Depreciation is charged as an expense against operations. Capital assets of the District are depreciated using the straight-line method over their estimated useful lives in years.

The depreciation expense provided on proprietary fund assets during the period ended December 31, 2022 is $191,692

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of unrestricted and restricted cash on hand, demand and savings deposits and certificates of deposit.

Federal Income Tax

The District is exempt from federal income tax since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory and Prepaid Items

The District maintains an inventory of supplies to make minor repairs to the water district systems. It is the policy of the water district to expense the items as they are purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

Restricted Net Position

Some of the District's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation.

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "debt service" accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The "depreciation reserve" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements and extensions.

The District collects sewer revenues on behalf of the City of Sandy Hook. The amount owed to the City of Sandy Hook as of December 31, 2022 is reported as a component of restricted net position. The amount owed the City of Sandy Hook includes current collections due and unearned sewer revenues.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B – RESTRICTIONS ON CASH

Bond Sinking Fund

Deposits into a Bond Sinking Fund are required to be made monthly in order to accumulate funds for payment of bond principle and interest. At December 31, 2022, $100,637 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2023. The balance in this account at December 31, 2022 was $251,141.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit $210 per month into the account. At December 31, 2022, $82,990 was the required balance of the Depreciation Reserve account. The District had $203,286 in this account for the purpose of maintaining the water system.

NOTE B – RESTRICTIONS ON CASH (Continued)

Restricted Cash Accounts

The District is required to maintain special deposit accounts for customer deposits and long-term debt obligations. The following is a listing of restricted cash accounts of the District:

Construction Account	$	600
Customer Deposit Fees Account		29,539
Short Lived Asset Account		38,613
Sewer Revenue Held for the City of Sandy Hook		42,374
Bond and Interest Sinking Fund		251,141
Depreciation Reserve Fund		203,286
Total Restricted Cash Accounts	$	565,553

NOTE C – NET POSITION

Equity is classified as net position and displayed in three components:

- Invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets;
- Restricted net position - resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and
- Unrestricted net position - those assets that do not meet the definition of restricted net position or invested in capital assets.

NOTE D – FAIR VALUE MEASUREMENT

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents and accounts receivable.

NOTE E – INSURANCE COVERAGE

The District is exposed to various risks of loss. The District carries commercial insurance for risks of loss. As of December 31, 2022, there were no known losses for which an accrual was considered necessary and no estimated claims that have been incurred, but not reported. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE F – CASH AND INVESTMENTS

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2022, these requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2022, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

NOTE G – PROPERTY, PLANT, AND EQUIPMENT

The District's major classes of utility capital assets and accumulated depreciation are shown below:

	Balance 12/31/2021	Additions	Disposals	Balance 12/31/2022
Land	$ 206,998	$	$	$ 206,998
Construction in Progress - Plant	12,498	642,981		655,479
Construction in Progress - Lines		591,217		591,217
Land Improvements	16,320			16,320
Building & Building Improvements	916,761			916,761
Wells and Springs	328,896			328,896
Transmission and Distribution	7,945,362			7,945,362
Treatment Plant	420,514			420,514
Electric Pumping Equipment	46,595			46,595
Miscellaneous Equipment	140,627			140,627
Furniture and Fixtures	3,896			3,896
Transportation Equipment	108,326			108,326
Total	10,146,793	1,234,198		11,380,991

NOTE G – PROPERTY, PLANT, AND EQUIPMENT (Continued)

	Balance 12/31/2021	Additions	Disposals	Balance 12/31/2022
Accumulated Depreciation:				
Land Improvements	13,366	388		13,754
Buildings & Building Improvements	302,310	18,867		321,177
Wells and Springs	57,450	1,192		58,642
Transmission & Distribution	3,176,723	156,782		3,333,505
Treatment Plant	412,155	1,097		413,252
Electric Pumping Equipment	28,309	2,118		30,427
Miscellaneous Equipment	125,844	7,909		133,753
Furniture and Fixtures	3,843	53		3,896
Transportation Equipment	91,899	3,286		95,185
Total	4,211,899	191,692		4,403,591
Fixed Assets Net of A/D	$ 5,934,894	$ 1,042,506	$ 0	$ 6,977,400

NOTE H – SHORT TERM DEBT

Interim Financing

On September 1, 2022, the Sandy Hook Water District (District) entered a loan agreement and note in the amount of $2,901,000 with Rural Water Financing Agency (RWFA) to be held for the District by a Trustee for the purpose of interim financing for the construction of a water treatment plant and waterline replacement. The District has obtained a commitment for permanent financing for the project from the United States Department of Agriculture Rural Development. The District will proceed with the project drawing on the funds with properly submitted requests, pledging to RWFA all right, title and interest in and to monies to be received pursuant to the permanent financing. Interest will accrue at 4.50%. Principal and interest will be due at the maturity date of October 1, 2024 or receipt of permanent financing, whichever comes first. As of December 31, 2022, the District has drawn $1,306,385 on the funds held in trust. No principal or interest payments are required as of December 31, 2022.

NOTE I – LONG TERM DEBT

Other Debt

1. Waterworks Revenue Series 1988

On May 25, 1988, the District entered into an agreement with Rural Development to issue $237,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvements to the existing waterworks system of the District payable from gross revenues. Semiannual interest payments at a rate of 6.25% are required on January 1 and June 1 with principal amount due each January 1. Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at his option, institute all rights and remedies provided by law or by said Current Bond Resolution. As of December 31, 2022, the principal balance outstanding was $87,000. Debt service requirements for year ending December 31, 2022, and thereafter are as follows:

NOTE I – LONG TERM DEBT (Continued)

Other Debt (Continued)

1. Waterworks Revenue Series 1988 (Continued)

Year Ended December 31	Scheduled Principal	Scheduled Interest
2023	$ 12,000	$ 5,062
2024	13,000	4,281
2025	14,000	3,438
2026	15,000	2,531
2027	16,000	1,563
2028	17,000	531
Totals	$ 87,000	$ 17,406

2. Waterworks Revenue Bond Series 1991

On July 24, 1991, the District entered into an agreement with Rural Development to issue $316,000 in Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District payable from gross revenues. Semiannual interest payments at a rate of 5% are required on January 1 and June 1 with principal amount due each January 1. Upon the occurrence of an Event of Default, and upon the filing of a suit by any Owner of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the prior Bonds and the Current Bonds and to provide and apply the income and revenues in conformity with the Resolution and with the laws of the commonwealth of Kentucky. As of December 31, 2022, the principal balance outstanding was $120,000. Debt service requirements for year ending December 31, 2022, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2023	$ 13,000	$ 6,000
2024	13,000	5,350
2025	14,000	4,700
2026	15,000	4,000
2027	15,000	3,250
2028-2030	50,000	5,050
Totals	$ 120,000	$ 28,350

NOTE I – LONG TERM DEBT (Continued)

Other Debt (Continued)

3. Waterworks Revenue Bonds Series 1995

On April 27, 1995, the District entered into an agreement with Rural Development to issue $259,000 in Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District payable from gross revenues. Upon the occurrence of an Event of Default, and upon the filing of a suit by any Owner of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the prior Bonds and the Current Bonds and to provide and apply the income and revenues in conformity with the Resolution and with the laws of the commonwealth of Kentucky. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2022, the principal balance outstanding was $134,000. Debt service requirements for year ending December 31, 2022, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2023	$ 9,000	$ 6,030
2024	9,000	5,626
2025	9,500	5,220
2026	10,000	4,792
2027	10,000	4,342
2028-2032	58,500	14,492
2033-2034	28,000	1,912
Totals	$ 134,000	$ 42,414

4. Waterworks Revenue Bonds Series 2001

On June 20, 2001, the District entered into an agreement with Rural Development to issue $495,000 Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District payable from gross revenues. Upon the occurrence of an Event of Default, and upon the filing of a suit by any Owner of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the prior Bonds and the Current Bonds and to provide and apply the income and revenues in conformity with the Resolution and with the laws of the commonwealth of Kentucky. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2022, the principal balance outstanding was $345,500. Debt service requirements for year ending December 31, 2022, and thereafter are as follows:

NOTE I – LONG TERM DEBT (CONTINUED)

Other Debt (Continued)

4. Waterworks Revenue Bonds Series 2001

Year Ended December 31	Scheduled Principal	Scheduled Interest
2023	$ 12,000	$ 15,548
2024	12,500	15,008
2025	13,000	14,446
2026	13,500	13,860
2027	14,000	13,252
2028-2032	81,000	56,116
2033-2037	101,000	36,182
2038-2041	98,500	11,340
Totals	$ 345,500	$ 175,752

5. Waterworks Revenue Bonds Series 2014

On July 21, 2014, the District entered into an agreement with Rural Development to issue $504,000 Waterworks Revenue bonds for the purpose of the construction of extensions, additions and improvements to the existing waterworks system of the District payable from gross revenues. Upon the occurrence of an Event of Default, and upon the filing of a suit by any Owner of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the prior Bonds and the Current Bonds and to provide and apply the income and revenues in conformity with the Resolution and with the laws of the commonwealth of Kentucky. Semiannual interest payments at a rate of 2.75% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2022, the principal balance outstanding was $444,482. Debt service requirements for year ending December 31, 2022, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2023	$ 9,500	$ 12,121
2024	9,500	11,859
2025	10,000	11,591
2026	10,000	11,316
2027	10,500	11,034
2028-2032	56,000	53,693
2033-2037	64,000	45,883
2038-2042	73,500	36,927
2043-2047	85,000	26,676
2048-2052	97,500	14,816
2053	18,982	2,496
Totals	$ 444,482	$ 238,412

NOTE I – LONG TERM DEBT (CONTINUED)

Other Debt (Continued)

6. Long Term Debt Maturity in the Aggregate

Year Ended December 31	Scheduled Principal	Scheduled Interest
2023	$ 55,500	$ 44,761
2024	57,000	42,124
2025	60,500	39,395
2026	63,500	36,499
2027	65,500	33,441
2028-2032	262,500	129,882
2033-2037	193,000	83,977
2038-2042	172,000	48,267
2043-2047	85,000	26,676
2048-2052	97,500	14,816
2053	18,982	2,496
Totals	$ 1,130,982	$ 502,334

7. Changes in Long-Term Liabilities

Business-type Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	$ 1,182,482	$ 0	$ 51,500	$ 1,130,982	$ 55,500
Business-type Activities Long-term Liabilities	$ 1,182,482	$ 0	$ 51,500	$ 1,130,982	$ 55,500

The total interest expense incurred by the District during the current fiscal year was $41,887.

NOTE J– RETIREMENT

General Information about the Retirement Plan

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.520 administered by the Board of Trustees of the Kentucky Public Pension Authority (KPPA). This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

NOTE J– RETIREMENT (Continued)

General Information about the Retirement Plan (Continued)

Nonhazardous covered employees are required to contribute five (5) percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six (6) percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KPPA insurance fund. The District's contribution rate for nonhazardous employees was 26.95 percent for the first six months of 2022 and 26.79 percent for the last six months of 2022.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District's contribution for calendar year 2020 was $68,418, and 2021 was $56,738 and 2022 was $60,493.

Benefits fully vest on reaching five (5) years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months credit.

CERS also provides post-retirement health care coverage as follows:

For member participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

NOTE J – RETIREMENT (Continued)

General Information about the Pension Plan (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the KPPA's annual financial report. This report may be obtained by writing the Kentucky Public Pension Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, by telephone at (502) 564-4646 or at www.kyret.ky.gov.

Pension Liabilities

At December 31, 2022, the District has a liability of $573,839 for its proportionate share of the net pension liability for non-hazardous retirement. 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, 2022 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 participating entities, actuarially determined. At December 31, 2022, the District's proportion was .007938%.

For the year ended December 31, 2022, the District recognized pension expense of $48,344. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS

NON-HAZARDOUS	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	$ 614	$ 5,110
Investment Experience	78,082	63,371
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	3,413	29,390
District Contributions Subsequent to Measurement Date	42,028	
Total	$ 124,137	$ 97,871

NOTE J – RETIREMENT (Continued)

Pension Liabilities (Continued)

The $42,028 (non-hazardous) of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ending December 31, 2022.The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

		Non-Hazardous
2023	$	(13,368)
2024	$	(13,874)
2025	$	(4,822)
2026	$	16,302
2027	$	0
Thereafter	$	0

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability

For financial reporting, the actuarial valuation as for June 30, 2022, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles.

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.

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%**	**4.28%**
Long Term Inflation Assumption		**2.30%**
Expected Nominal Return for Portfolio		**6.58%**

NOTE J – RETIREMENT (Continued)

Pension Liabilities (Continued)

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

A single discount rate of 6.25% was used to measure the total pension liability for the non-hazardous plan for the fiscal year ending June 30, 2022. The single discount rate is based on the expected rate of return on pension plan investments for each plan. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the non-hazardous plan's fiduciary net position and future contributions were separately projected and were each sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each plan.

The projection of cash flows used to determine the single discount rate for each plan must include an assumption regarding actual employer contributions made each future year. Except where noted below, future contributions are projected assuming that each participating employer in each pension plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy. The assumed future employer contributions reflect the provision 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.

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

NON-HAZARDOUS	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's Net Pension Liability	$ 717,228	$ 573,839	$ 455,245

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2021

Determined by the Actuarial Valuation as of:	June 30, 2020
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Amortization Method:	Level Percent of Pay

NOTE J – RETIREMENT (Continued)

Pension Liabilities (Continued)

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2021 (Continued)

Amortization Period:	30-year closed period at June 30, 2019 *Gains/losses incurring after 2019 will be amortized overseparate closed 20-year amortization bases*
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 10.30%, varies by service
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
Phase-In Provision:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

At December 31, 2022, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

Plan Description

Employees of the District are provided hospital and medical insurance through the Kentucky Public Pension Authority's (KPPA) Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state stature under Kentucky Revised Statue Section 61.645. The KPPA Board of Trustees is responsible for the proper operation and administration the KPPA. The KPPA issues a publicly available financial report that can be obtained by writing the Kentucky Public Pension Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

For financial reporting the actuarial valuation as for June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles. 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.

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability (Continued)

The total OPEB liability as of June 30, 2022 is determined using these updated provisions. There were no other material plan provision changes and it is the opinion of GRS that the procedures are reasonable and appropriate, and comply with applicable requirements under GASB Statement No. 75.

Based on the June 30, 2020 actuarial valuation report, the actuarial methods and assumptions used to calculate the required contributions are below:

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30-year 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%
Investment Return	6.25%
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service
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
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% at January 1, 2022 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 a assumed 2.90% increase in Medicare premiums at January 1, 2022.
CERS Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance the HB 362 enacted in 2018

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Single Discount Rate

Single discount rates of 5.70% for the CERS non-hazardous insurance plan was used to measure the total OPEB liability as of June 30, 2022. The single discount rate is based on the expected rate of return on OPEB plan investments 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, 202. 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 separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance pan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the plan's actuarially determined contributions, and it is the understanding of GRS that any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future 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.

Long-Term Expected Rate of Return

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 tables below. The current long-term assumption is 2.30% per annum for non-hazardous.

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%**	**4.28%**
Long Term Inflation Assumption		**2.30%**
Expected Nominal Return for Portfolio		**6.58%**

NOTE K– POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Deferred Inflows and Outflows of Resources

The deferred inflows and outflows of resources and OPEB Expense columns included in the Schedule of OPEB Amounts by Employer include only certain categories of deferred inflows of resources and deferred outflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of OPEB Amounts by Employer does not include deferred inflows/outflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net OPEB liability as of June 30, 2022 is based on the June 30, 2021 actuarial valuation rolled forward. Deferred inflows and outflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

Sensitivity of the Net OPEB to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.70%) or one percentage point higher (6.70%) follows:

NON-HAZARDOUS	1 % Decrease (4.70%)	Current Discount Rate (5.70%)	1% Increase (6.70%)
District's OPEB Liability	$ 209,400	$ 156,638	$ 113,021

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates follows:

NON-HAZARDOUS	1% Decrease	Current Trend Rate	1 % Increase
District's OPEB Liability	$ 116,457	$ 156,638	$ 204,888

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

At December 31, 2022, the District reported a liability of $156,638 (non-hazardous) for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year June 30, 2022. This method is to be reflective of the employers' long-term contribution effort. At December 31, 2022, the District's proportion was 0.007937%, non-hazardous.

For the year ended December 31, 2022, the District recognized OPEB expense of $24,896 nonhazardous. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NOTE K– POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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

SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS

NON-HAZARDOUS	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	$ 15,767	$ 35,921
Changes in assumptions	24,773	20,413
Investment Experience	29,168	22,810
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	9,054	11,154
District Contributions Subsequent to the Measurement Date	(26,448)	
Total	$ 52,314	$ 90,298

The $(24,390) (non-hazardous) of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending December 31, 2022. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:

	Non-Hazardous
2023	$ 844
2024	$ 553
2025	$ (11,373)
2026	$ (1,560)
2027	$ 0
Thereafter	$ 0

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. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual expense are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 29, 2023, which is the date the financial statements were available to be issued.

NOTE M – CONSTRUCTION IN PROGRESS

Construction in Progress at December 31, 2022 was $642,981 for water treatment plant expenses and $591,217 for water line expenses.

NOTE N – COMPENSATED ABSENCES

It is the District's policy to permit its employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave because the District does not have a policy to pay any amounts when employees separate from service with the District. The unused vacation or annual leave is considered a vested employee benefit.

In recognition of the resulting obligation, the District has accrued a liability for earned but unused vacation leave, having determined that payment of such compensation is probable and having developed a reasonable estimate based upon current salary costs and annual leave balances as of December 31, 2022. The liability for compensated absences at December 31, 2022 was $11,000.

SUPPLEMENTAL INFORMATION

SANDY HOOK WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIBILITY
December 31, 2022

	Non-Hazardous								
(Actuarial Valuation Report Year)	2014	2015	2016	2017	2018	2019	2020	2021	2022
District's Proportion of the Net Pension Liability (Asset)	0.006757%	0.007350%	0.007220%	0.007193%	0.007120%	0.008640%	0.008534%	0.008593%	0.007938%
District's Proportionate Share of the Net Pension Liability (Asset)	$ 219.000	$ 316.014	$ 355,356	$ 329.031	$ 433.630	$ 567.989	$ 654.551	$ 547.871	$ 573.839
District's Covered-Employee Payroll	$ 154.733	$ 168.911	$ 169.858	$ 172,294	$ 174,062	$ 200,455	$ 218.595	$ 219.487	$ 214,140
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	141.53%	187.09%	209.21%	190.97%	249.12%	283.35%	299.44%	249.61%	267.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	59.97%	55.50%	53.30%	57.62%	50.45%	47.81%	57.33%	52.42%

Note:
This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

SANDY HOOK WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
December 31, 2022

	Non-Hazardous								
(Actuarial Valuation Report Year)	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually Required Pension Contribution	$ 21,298	$ 21,846	$ 20,515	$ 24,431	$ 25,552	$ 33,042	$ 42,189	$ 42,361	$ 50,003
Pension Contributions in Relation to the Contractually Required Contribution	21,367	21,536	20,515	24,431	25,552	33,042	42,189	42,361	50,003
Pension Contribution Deficiency (Excess)	$ (69)	$ 310	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
District's Covered-Employee Payroll	$ 154,733	$ 168,911	$ 169,858	$ 172,294	$ 174,062	$ 200,455	$ 218,595	$ 219,487	$ 214,140
Pension Contributions as a Percentage of Covered-Employee Payroll	13.76%	12.93%	12.08%	14.18%	14.68%	16.48%	19.30%	19.30%	23.35%

Note:
This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

SANDY HOOK WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIBILITY
December 31, 2022

	Non-Hazardous					
(Actuarial Valuation Report Year)	2017	2018	2019	2020	2021	2022
District's Proportion of the OPEB Liability (Asset)	0.006825%	0.007119%	0.008740%	0.008531%	0.008591%	0.007937%
District's Proportionate Share of the OPEB Liability (Asset)	$ 137,206	$ 129,361	$ 135,801	$ 205,998	$ 164,470	$ 156,638
District's Covered-Employee Payroll	$ 172,294	$ 174,062	$ 200,455	$ 218,595	$ 219,487	$ 214,140
District's Proportionate Share of the OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	79.63%	74.32%	67.75%	94.24%	74.93%	73.15%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	53.30%	57.62%	65.26%	51.67%	62.91%	60.95%

Note:
This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

SANDY HOOK WATER DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
December 31, 2022

	Non-Hazardous					
(Actuarial Valuation Report Year)	2017	2018	2019	2020	2021	2022
Contractually Required OPEB Contribution	$ 8,720	$ 10,032	$ 10,715	$ 10,405	$ 10,448	$ 9,153
OPEB Contributions in Relation to the Contractually Required Contribution	8,720	10,032	10,715	10,405	10,448	9,153
OPEB Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
District's Covered-Employee Payroll	$172,294	$174,062	$200,455	$218,595	$219,487	$214,140
OPEB Contributions as a Percentage of Covered-Employee Payroll	5.06%	5.76%	5.35%	4.76%	4.76%	4.27%

Note:
This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

Note 1. General Information

Contributions

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

Payroll

The District's covered payroll reported on the Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of the District's Proportionate Share of the Net OPEB Liability is for the corresponding measurement date of the net liabilities and differs from the District's calendar year payroll as reported in the financial statements.

Note 2. Changes in Assumptions

December 31, 2021 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rated for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

December 31, 2020 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rated for pre-65 was changed from 7% to 6.40%. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

December 31, 2019 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for pension and OPEB:

- The assumed rate of salary increases was increased from 3.50% to 3.3% to 10.3% on average for non-hazardous.

December 31, 2018 – Pension and OPEB

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

Note 2. Changes in Assumptions (Continued)

December 31, 2017 – Pension

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

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

December 31, 2016 – Pension and OPEB

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

December 31, 2015 – Pension

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

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

December 31, 2014 – Pension

There were no changes in assumptions made by the Kentucky Legislature and reflected in the vlation performed as of June 30, 2014.

December 31, 2013 – Pension

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired member and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

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Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Commissioners
Sandy Hook Water District
Sandy Hook, 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 Sandy Hook Water District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Sandy Hook Water District's basic financial statements, and have issued our report thereon dated March 29, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sandy Hook 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 Sandy Hook Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Sandy Hook 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.

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sandy Hook Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. 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.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky
March 29, 2023