

**SANDY HOOK WATER DISTRICT**  
**AUDIT OF FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2023**

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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, 2023, 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, 2023, 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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who

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

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 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.

***Supplementary Information***

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2024, 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  
April 26, 2024

**SANDY HOOK WATER DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2023**

ASSETS

CURRENT ASSETS

Cash - Unrestricted	\$	403,838
Cash - Restricted		328,924
Accounts Receivable		97,719
Prepaid Expenses		7,145
		7,145

Total Current Assets 837,626

NONCURRENT ASSETS

Capital Assets - Net of Accumulated Depreciation

Land		206,998
Construction in Progress		4,443,069
Land Improvements		2,176
Buildings and Building Improvements		583,846
Wells and Springs		251,721
Electric Pumping Equipment		14,930
Transmission and Distribution		5,115,265
Treatment Plant		6,164
Transportation Equipment		9,857
		9,857

Total Capital Assets - Net of Accumulated Depreciation 10,634,026

Cash - Restricted 266,452

Total Noncurrent Assets 10,900,478

TOTAL ASSETS 11,738,104

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension		136,922
Deferred Outflows - OPEB		17,704

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

**SANDY HOOK WATER DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2023**

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accrued Interest	39,702
Due to City of Sandy Hook	47,979
Accrued Taxes	5,422
Accrued Salaries	5,157
Unearned Revenues	6,381
Accrued Retirement	6,379
Accrued Health Insurance	5,623
Accounts Payable	15,473
Accounts Payable - Construction	50,982
Bonds Payable	57,000
Total Current Liabilities	240,098

LONG-TERM LIABILITIES

Bonds Payable	3,919,482
Compensated Absenses	13,279
Total Long-Term Liabilities	3,932,761

OTHER LIABILITIES

Net Pension Liabilities	513,577
Net OPEB Liabilities	(11,051)
Customer Deposits	20,236
Total Other Liabilities	522,762

TOTAL LIABILITIES 4,695,621

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension	124,874
Deferred Inflows - OPEB	203,344

NET POSITION

Invested in Capital Assets, Net of Related Debt	6,606,562
Restricted for:	
Debt Service	280,124
Depreciation Reserve	237,334
Construction	821
Sewer Collections	47,979
Unrestricted	(303,929)
Total Net Position	6,868,891
TOTAL LIABILITIES AND NET POSITION	\$ 11,892,730

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, 2023**

OPERATING REVENUES

Water Sales	\$	949,314
Service Revenues		11,015
Miscellaneous Revenues		29,917
		990,246
Total Operating Revenues		990,246

OPERATING EXPENSES

Water Expenses		
Depreciation		211,674
Dues and Subscriptions		9,547
Legal and Accounting Services		11,500
Miscellaneous		16,219
Office Supplies		2,903
Purchased Water		9,810
Payroll Taxes		7,943
Postage and Freight		7,838
Professional Services		3,997
Insurance		80,341
Workers Comp		4,296
Repairs and Maintenance		78,436
Retirement		18,931
OPEB		(20,033)
Salaries and Wages		298,666
Supplies and Testing		58,254
Taxes and Licenses		500
Telephone and Utilities		80,205
Travel and Automobile		13,590
		894,617
Total Operating Expenses		894,617

NET OPERATING INCOME (LOSS)		95,629
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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, 2023**

NON OPERATING REVENUES (EXPENSES)	
Rural Development Project Funds	2,298,095
Interest Expense	(130,778)
Interest Income	<u>2,394</u>
Total Non Operating Revenues (Expenses)	<u>2,169,711</u>
Net Change in Net Position	2,265,340
Net Position - Beginning (Restated)	<u>4,603,551</u>
Total Net Position - Ending	<u><u>\$ 6,868,891</u></u>

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, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Payments from Customers	\$	950,830
Payments from Sewer Collection Fees		8,811
Miscellaneous Revenue		31,332
Payments to Vendors		(301,776)
Payments for Payroll and Related Expenses		<u>(418,883)</u>
 Net Cash Provided (Used) by Operating Activities		 270,314

**CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Capital Asset Additions		(3,857,307)
Grant Proceeds		2,298,095
Loan Proceeds		2,910,000
Interest Paid on Debt		(113,656)
Payments on Capital Debt		<u>(1,370,885)</u>
 Net Cash Provided (Used) by Capital and Related Financing Activities		 (133,753)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash Received from Interest		<u>2,394</u>
 Net Cash Provided (Used) by Investing Activities		 <u>2,394</u>

INCREASE (DECREASE) IN CASH		138,955
 CASH AT BEGINNING OF YEAR		 <u>860,259</u>
 CASH AT END OF YEAR		 <u><u>\$ 999,214</u></u>

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, 2023**

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

Net Operating Income (Loss)	\$	95,629
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		211,674
Changes in Assets/Liabilities:		
Accounts Receivable		2,008
Accounts Payable		4,146
Accrued Retirement		6,379
Accrued Insurance		5,623
Accrued Taxes		791
Accrued Salaries and Wages		3,546
Compensated Absences		2,279
Due to City of Sandy Hook		5,605
Customer Deposits		(1,280)
Net Pension Liability		(60,262)
OPEB Liability		(167,698)
Deferred Inflows		140,049
Deferred Outflows		21,825
		21,825
Net Cash Provided (Used) by Operating Activities	\$	270,314

Supplementary Information

Interest Expensed	\$	130,778
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The accompanying notes are an integral part of the financial statements.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**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.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**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.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**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, 2023. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 28, 2023 was for customer usage from approximately November 26 through December 25, 2023. The entire amount is considered accounts receivable as of December 31, 2023. The billing mailed on January 27, 2024 was for usage from approximately December 26, 2023 through January 25, 2024. Approximately five days of this billing is considered unbilled receivables at December 31, 2023.

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, 2023 is \$211,674

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.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**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, 2023 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, 2023, \$134,904 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2024. The balance in this account at December 31, 2023 was \$280,124.

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, 2023, \$85,510 was the required balance of the Depreciation Reserve account. The District had \$225,613 in this account for the purpose of maintaining the water system.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**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	\$ 821
Customer Deposit Fees Account	29,118
Short Lived Asset Account	11,673
Sewer Revenue Held for the City of Sandy Hook	47,979
Bond and Interest Sinking Fund	280,124
Depreciation Reserve Fund	225,661
Total Restricted Cash Accounts	\$ 595,376

**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, 2023, 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.



**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**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, 2023, 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, 2023, 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 12/31/2022	Additions	Disposals	Balance 12/31/2023
Land	\$ 206,998	\$	\$	\$ 206,998
Construction in Progress - Plant	655,479	3,787,590		4,443,069
Construction in Progress - Lines	591,217	82,446	673,663	0
Land Improvements	16,320			16,320
Building & Building Improvements	916,761	7,535	35,001	889,295
Wells and Springs	328,896	30,729	35,992	323,633
Transmission and Distribution	7,945,362	673,663		8,619,025
Treatment Plant	420,514			420,514
Electric Pumping Equipment	46,595			46,595
Miscellaneous Equipment	140,627		59,177	81,450
Furniture and Fixtures	3,896		3,896	0
Transportation Equipment	108,326			108,326
<b>Total</b>	<b>11,380,991</b>	<b>4,581,963</b>	<b>807,729</b>	<b>15,155,225</b>

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

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

	Balance 12/31/2022	Additions	Disposals	Balance 12/31/2023
<b>Accumulated Depreciation:</b>				
Land Improvements	13,754	388		14,142
Buildings & Building Improvements	321,177	19,274	35,001	305,450
Wells and Springs (Restated)	98,642	9,266	35,992	71,916
Transmission & Distribution	3,333,505	170,255		3,503,760
Treatment Plant	413,252	1,097		414,349
Electric Pumping Equipment	30,427	1,234		31,661
Miscellaneous Equipment	133,753	6,874	59,177	81,450
Furniture and Fixtures	3,896		3,896	0
Transportation Equipment	95,185	3,286		98,471
<b>Total</b>	<b>4,443,591</b>	<b>211,674</b>	<b>134,066</b>	<b>4,521,199</b>
Fixed Assets Net of A/D	<u>\$ 6,937,400</u>	<u>\$ 4,370,289</u>	<u>\$ 673,663</u>	<u>\$ 10,634,026</u>

**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, 2023, 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. During 2023, the District drew an additional \$1,594,615, totaling \$2,901,000 in interim financing. At December 31, 2023, interim financing was paid in full including \$69,690 in interest with financing from Rural Development loans. (See Note I #6 and #7.)

**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

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**NOTE I – LONG TERM DEBT (Continued)**

**Other Debt (Continued)**

**1. Waterworks Revenue Series 1988 (Continued)**

remedies provided by law or by said Current Bond Resolution. As of December 31, 2023, the principal balance outstanding was \$75,000. Debt service requirements for year ending December 31, 2023, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
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	\$ 75,000	\$ 12,344

**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, 2023, the principal balance outstanding was \$107,000. Debt service requirements for year ending December 31, 2023, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$ 13,000	\$ 5,350
2025	14,000	4,700
2026	15,000	4,000
2027	15,000	3,250
2028	16,000	2,500
2029-2030	34,000	2,550
Totals	\$ 107,000	\$ 22,350

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**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, 2023, the principal balance outstanding was \$125,000. Debt service requirements for year ending December 31, 2023, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$ 9,000	\$ 5,626
2025	9,500	5,220
2026	10,000	4,792
2027	10,000	4,342
2028	10,500	3,892
2029-2033	61,500	11,860
2034	14,500	652
<b>Totals</b>	<b>\$ 125,000</b>	<b>\$ 36,384</b>

**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, 2023, the principal balance outstanding was \$333,500. Debt service requirements for year ending December 31, 2023, and thereafter are as follows:

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**NOTE I – LONG TERM DEBT (CONTINUED)**

**Other Debt (Continued)**

**4. Waterworks Revenue Bonds Series 2001**

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$ 12,500	\$ 15,008
2025	13,000	14,446
2026	13,500	13,860
2027	14,000	13,252
2028	15,000	12,622
2029-2033	84,500	52,472
2034-2038	105,500	31,636
2039-2041	75,500	6,908
Totals	<u>\$ 333,500</u>	<u>\$ 160,204</u>

**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, 2023, the principal balance outstanding was \$434,982. Debt service requirements for year ending December 31, 2023, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$ 9,500	\$ 11,859
2025	10,000	11,591
2026	10,000	11,316
2027	10,500	11,034
2028	10,500	10,746
2029-2033	57,500	49,135
2034-2038	66,000	40,659
2039-2043	75,500	30,945
2044-2048	87,500	19,767
2049-2053	97,982	6,889
Totals	<u>\$ 434,982</u>	<u>\$ 203,941</u>

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**NOTE I – LONG TERM DEBT (CONTINUED)**

**Other Debt (Continued)**

**6. Waterworks Revenue Bonds Series 2023A**

On July 13, 2023, the District entered into an agreement with Rural Development to issue \$1,712,000 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 1.50% are required on January 1 and June 1 with principal amount due each January 1. The principal payments will commence January 1, 2025, with interest only payments in 2024. As of December 31, 2023, the principal balance outstanding was \$1,721,000. Debt service requirements for year ending December 31, 2023, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$	\$ 25,073
2025	33,000	25,568
2026	33,500	25,069
2027	34,000	24,563
2028	34,500	24,049
2029-2033	180,000	112,274
2034-2038	193,000	98,303
2039-2043	208,500	83,254
2044-2048	224,000	67,036
2049-2053	242,000	49,575
2054-2058	260,500	30,732
2059-2063	278,000	10,463
Totals	\$ 1,721,000	\$ 575,959

**7. Waterworks Revenue Bonds Series 2023B**

On July 13, 2023, the District entered into an agreement with Rural Development to issue \$1,180,000 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 1.125% are required on January 1

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**NOTE I – LONG TERM DEBT (CONTINUED)**

**Other Debt (Continued)**

**7. Waterworks Revenue Bonds Series 2023B (Continued)**

and June 1 with principal amount due each January 1. The principal payments will commence January 1, 2025, with interest only payments in 2024. As of December 31, 2023, the principal balance outstanding was \$1,180,000. Debt service requirements for year ending December 31, 2023, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$	\$ 12,894
2025	24,500	13,156
2026	24,500	12,897
2027	25,000	12,618
2028	25,000	12,353
2029-2033	130,000	57,328
2034-2038	137,500	49,799
2039-2043	145,000	41,835
2044-2048	153,500	33,430
2049-2053	162,500	24,496
2054-2058	171,500	15,090
2059-2063	181,000	5,138
Totals	\$ 1,180,000	\$ 291,034

**8. Long Term Debt Maturity in the Aggregate**

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$ 57,000	\$ 80,091
2025	118,000	78,119
2026	121,500	74,465
2027	124,500	70,622
2028	128,500	66,693
2029-2033	547,500	285,619
2034-2038	516,500	221,049
2039-2043	504,500	162,942
2044-2048	465,000	120,233
2049-2053	502,482	80,960
2054-2058	432,000	45,822
2059-2063	459,000	15,601
Totals	\$ 3,976,482	\$ 1,302,216

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**9. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Revenue Bonds	\$ 1,130,982	\$ 2,901,000	\$ 55,500	\$ 3,976,482	\$ 57,000
Business-type Activities Long-term Liabilities	<u>\$ 1,130,982</u>	<u>\$ 2,901,000</u>	<u>\$ 55,500</u>	<u>\$ 3,976,482</u>	<u>\$ 57,000</u>

The total interest expense incurred by the District during the current fiscal year was \$130,778.

**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.

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 2021 was \$56,738, 2022 was \$60,493, and 2023 was \$64,975.

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.



**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**NOTE J- RETIREMENT (Continued)**

*General Information about the Retirement Plan (Continued)*

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:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
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.

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](http://www.kyret.ky.gov).

*Pension Liabilities*

At December 31, 2023, the District has a liability of \$513,577 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of June 30, 2023, 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, 2023, the District's proportion was .008004%.

For the year ended December 31, 2023, the District recognized pension expense of \$18,931. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**NOTE J – RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

**SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS**

<b>NON-HAZARDOUS</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Experience	\$ 26,587	\$ 1,396
Assumption Changes		47,070
Investment Experience	55,481	62,486
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	2,221	13,922
District Contributions Subsequent to Measurement Date	<u>52,633</u>	
<b>Total</b>	<u><u>\$ 136,922</u></u>	<u><u>\$ 124,874</u></u>

The \$52,633 (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, 2023. 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:

	<u>Non-Hazardous</u>
2024	\$ (28,791)
2025	\$ (18,287)
2026	\$ 11,465
2027	\$ (4,972)
2028	\$ 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, 2023, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2023 were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**NOTE J – RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability (Continued)

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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	4.99%
Real Return	13.00%	5015.00%
<b>Expected Real Return</b>	<b>100%</b>	<b>5.75%</b>
<b>Long Term Inflation Assumption</b>		<b>2.50%</b>
<b>Expected Nominal Return for Portfolio</b>		<b>8.25%</b>

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 6.50% was used to measure the total pension liability for the non-hazardous plan for the fiscal year ending June 30, 2023. 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.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

**NOTE J – RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

Single Discount Rate (Continued)

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 (5.50 percent) or one-percentage-point higher (7.50 percent) than the current rate for non-hazardous:

<b>NON-HAZARDOUS</b>	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
District's Net Pension Liability	\$ 648,422	\$ 513,577	\$ 401,516

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, 2021
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
Amortization Period:	30-year closed period at June 30, 2019 <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
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, 2023, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

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

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 statute under Kentucky Revised Statute Section 61.645. The KPPA Board of Trustees is responsible for the proper operation and administration of 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 of June 30, 2023, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2023 were based on an actuarial valuation date of June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, 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.

The total OPEB liability as of June 30, 2023 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, 2021 actuarial valuation report, the actuarial methods and assumptions used to calculate the required contributions are below:

Valuation Date	June 30, 2021
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 ( <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i> )
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

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

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

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

Healthcare Trend Rates

Pre – 65

Initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 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, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.

Single Discount Rate

Single discount rates of 5.93% for the CERS non-hazardous insurance plan was used to measure the total OPEB liability as of June 30, 2023. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.86%, as reported in Fidelity Index's "20-Year Municipal GO AA Index) as of June 30, 2023. 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 plan 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.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

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

Long-Term Expected Rate of Return (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
<b>Expected Real Return</b>	<b>100%</b>	<b>5.75%</b>
<b>Long Term Inflation Assumption</b>		<b>2.50%</b>
<b>Expected Nominal Return for Portfolio</b>		<b>8.25%</b>

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, 2023 is based on the June 30, 2022 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 (4.93%) or one percentage point higher (6.93%) follows:

<b>NON-HAZARDOUS</b>	<u>1 % Decrease (4.93%)</u>	<u>Current Discount Rate (5.93%)</u>	<u>1% Increase (6.93%)</u>
District's OPEB Liability	\$ 20,738	\$ (11,051)	\$ (37,670)

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

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

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:

<b>NON-HAZARDOUS</b>	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1 % Increase</u>
District's OPEB Liability	\$ (35,420)	\$ (11,051)	\$ 18,884

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

At December 31, 2023, the District reported a liability of \$(11,051) (non-hazardous) for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2023 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, 2023. This method is to be reflective of the employers’ long-term contribution effort. At December 31, 2023, the District’s proportion was 0.008004%, non-hazardous.

For the year ended December 31, 2023, the District recognized OPEB expense of \$7,377 nonhazardous. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS**

<b>NON-HAZARDOUS</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Experience	\$ 7,704	\$ 156,911
Changes in assumptions	21,747	15,156
Investment Experience	20,681	23,246
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	5,499	8,031
District Contributions Subsequent to the Measurement Date	<u>(37,927)</u>	
Total	<u>\$ 17,704</u>	<u>\$ 203,344</u>

The \$(37,927) (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, 2023. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:



**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2023**

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

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

	Non-Hazardous
2024	\$ (34,506)
2025	\$ (46,506)
2026	\$ (36,608)
2027	\$ (30,093)
2028	\$ 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 April 26, 2024, which is the date the financial statements were available to be issued.

**NOTE M – CONSTRUCTION IN PROGRESS**

Construction in Progress at December 31, 2023 was \$642,981 for water treatment plant 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, 2023. The liability for compensated absences at December 31, 2023 was \$13,279.

**NOTE O – PRIOR PERIOD ADJUSTMENT**

Accumulated Depreciation increased by \$40,000.

**SUPPLEMENTAL INFORMATION**

**SANDY HOOK WATER DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
December 31, 2023**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
District's Proportion of the Net Pension Liability	0.006757%	0.007350%	0.007220%	0.007193%	0.007120%	0.008640%	0.008534%	0.008593%	0.007938%	0.008004%
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	\$ 513.577
District's Covered-Employee Payroll	\$ 154.733	\$ 168.911	\$ 169.858	\$ 172.294	\$ 174.062	\$ 200.455	\$ 218.595	\$ 219.487	\$ 214.140	\$ 227.049
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%	226.20%
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%	57.48%

**Note:**

This schedule covers the ten (10) most recent fiscal years; however, the information available as of the implementation of GASB 68.

**SANDY HOOK WATER DISTRICT  
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS  
December 31, 2023**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually Required Pension Contribution	\$ 21.298	\$ 21.846	\$ 20.515	\$ 24.431	\$ 25.552	\$ 33.042	\$ 42.189	\$ 42.361	\$ 50.003	\$ 54.370
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	54.370
Pension Contribution Deficiency (Excess)	\$ (69)	\$ 310	\$ 0	\$ 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	\$ 227.049
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%	23.95%

**Note:**

This schedule covers the ten (10) most recent fiscal years; 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 LIABILITY  
December 31, 2023**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>						
	2017	2018	2019	2020	2021	2022	2023
District's Proportion of the OPEB Liability (Asset)	0.006825%	0.007119%	0.008740%	0.008531%	0.008591%	0.007937%	0.800400%
District's Proportionate Share of the OPEB Liability (Asset)	\$ 137,206	\$ 129,361	\$ 135,801	\$ 205,998	\$ 164,470	\$ 156,638	\$ (11,051)
District's Covered-Employee Payroll	\$ 172,294	\$ 174,062	\$ 200,455	\$ 218,595	\$ 219,487	\$ 214,140	\$ 227,049
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%	-4.867%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	53.30%	57.62%	65.26%	51.67%	62.91%	60.95%	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, 2023**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>						
	2017	2018	2019	2020	2021	2022	2023
Contractually Required OPEB Contribution	\$ 8,720	\$ 10,032	\$ 10,715	\$ 10,405	\$ 10,448	\$ 9,153	\$ 7,877
OPEB Contributions in Relation to the Contractually Required Contribution	8,720	10,032	10,715	10,405	10,448	9,153	7,877
OPEB Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
District's Covered-Employee Payroll	\$ 172,294	\$ 174,062	\$ 200,455	\$ 218,595	\$ 219,487	\$ 214,140	\$ 227,049
OPEB Contributions as a Percentage of Covered-Employee Payroll	5.06%	5.76%	5.35%	4.76%	4.76%	4.27%	3.47%

**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**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2023**

**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, 2022 – Pension and OPEB***

No changes in assumptions as of June 30, 2022.

***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 rate 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 rate 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.

**SANDY HOOK WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2023**

**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 rate 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 valuation 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.



**SANDY HOOK WATER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2023**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Total Federal Expenditures</u>
U. S. Department of Agriculture		
Water and Waste Disposal for Rual Communities		
Rural Development Loans	10.760	\$ 2,901,000
Rural Development Grants	10.760	2,345,112
Total U.S. Department of Agriculture		\$ 5,246,112

**SANDY HOOK WATER DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**December 31, 2023**

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Sandy Hook Water District under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Sandy Hook Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Sandy Hook Water District.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement

**Note 3. Indirect Cost Rate**

Sandy Hook Water District does not use the 10-percent de minimis indirect cost rate.

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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, 2023, 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 April 26, 2024.

### **Report on 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***

**Report on 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  
April 26, 2024

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## **Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance**

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

### **Report on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited Sandy Hook Water District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Sandy Hook Water District's major federal programs for the year ended December 31, 2023. Sandy Hook Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Sandy Hook Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Sandy Hook Water District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Sandy Hook Water District's compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Sandy Hook Water District's federal programs.

## **Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance**

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Sandy Hook Water District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Sandy Hook Water District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Sandy Hook Water District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Sandy Hook Water District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Sandy Hook Water District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

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

**Independent Auditor's Report On Compliance For Each Major Program  
And On Internal Control Over Compliance Required By The Uniform Guidance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky  
April 26, 2024

**SANDY HOOK WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2023**

**SUMMARY OF AUDITOR'S RESULTS**

1. The Auditor's report expresses an unmodified opinion on whether the financial statements of Sandy Hook Water District were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Sandy Hook Water District were disclosed during the audit.
4. There were no significant deficiencies or material weaknesses in internal control over major federal award programs disclosed during the audit and reported in the *Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance*.
5. The Auditor's report on compliance for the major federal award programs for Sandy Hook Water District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516 (a).
7. The programs tested as major programs included:  

United States Department of Agriculture	
Rural Development Loans	Assistance Listing #10.760
Rural Development Grants	Assistance Listing #10.760
8. The threshold used for distinguishing between Types A and B programs was \$750,000.
9. Sandy Hook Water District was not determined to be a low-risk auditee.

**FINDINGS—FINANCIAL STATEMENTS AUDIT**

**NONE**

**FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**NONE**

**SUMMARY OF PRIOR AUDIT FINDING**

**NONE**

**CORRECTIVE ACTION PLAN**

**THIS SCHEDULE IS NOT NECESSARY**