



# **Todd County Water District**

**A Component Unit of  
Todd County, Kentucky**

## **FINANCIAL STATEMENTS**

**December 31, 2022 and 2021**



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# REPORT





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**INDEPENDENT AUDITORS' REPORT**

Commissioners  
Todd County Water District  
Elkton, Kentucky

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the accompanying financial statements of Todd County Water District (the "District"), a component unit of Todd County, Kentucky, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Todd County Water District as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Todd County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of 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.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 judgment made by a reasonable user based on the financial statements.

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

- Exercise professional 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 Todd County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Todd County Water District's ability to continue as a going concern for a reasonable period of time.

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

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and select pension and OPEB information on pages 46 through 53 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC  
Bowling Green, Kentucky  
May 18, 2023



# FINANCIAL STATEMENTS



## **Todd County Water District Management's Discussion and Analysis**

The Todd County Water District's discussion and analysis is designed to offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2022 and 2021. Readers are encouraged to read the Management's Discussion and Analysis included in the audit and the District's financial statements.

### **• Financial Highlights**

- The total assets and deferred outflows of resources of the District exceeded its total liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$6,872,024 compared to \$6,538,089 in the 2021 fiscal year. This is an increase from the 2020 fiscal year when the total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$6,008,071. Of this amount, \$2,584,359 may be used to meet the District's ongoing obligations to citizens and creditors, as compared to \$2,191,157 for the 2021 fiscal year and \$1,075,458 for the 2020 fiscal year. It is the District's intent to use these assets to operate the District. The restricted net position is earmarked for unbudgeted repairs and maintenance costs and debt service of the District. Total deferred outflows of resources were \$366,997 for 2022 compared to \$323,634 for 2021 and \$334,887 in 2020.
- The District has \$11,267,498, in long-term debt, net of current portion, as compared to \$11,547,150 for the 2021 fiscal year and \$12,023,607 for the 2020 fiscal year. Of this amount, \$929,001 is related to the net pension liability formed by the implementation of GASB 68, compared to \$866,405 in the 2021 fiscal year and \$990,568 in the 2020 fiscal year.

### **► Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) Financial Statements; and 2) Notes to the Financial Statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

### **► Financial Statements**

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues and expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change

## Todd County Water District Management's Discussion and Analysis

occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The financial statements can be found on pages 10 through 15 of this report.

### ► Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 through 45 of this report.

### • Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,872,024 as compared with \$6,538,089 for the 2021 fiscal year and \$6,008,071 for the 2020 fiscal year.

#### Net Position as of December 31, 2022 and 2021

	<u>2020</u>	<u>2021</u>	<u>2022</u>
Current assets	4,086,670	4,423,569	5,193,777
Capital and other assets	<u>14,336,736</u>	<u>13,967,003</u>	<u>13,423,205</u>
<b>Total Assets</b>	18,423,406	18,390,572	18,616,982
Deferred amount of debt refundings	32,563	38,534	44,051
Pension/OPEB Related related	<u>302,324</u>	<u>285,100</u>	<u>322,946</u>
<b>Total Deferred Outflows of Resources</b>	<u>334,887</u>	<u>323,634</u>	<u>366,997</u>
Long-term liabilities	12,023,607	11,547,150	11,267,498
Other liabilities (current)	<u>595,504</u>	<u>314,929</u>	<u>550,229</u>
<b>Total Liabilities</b>	<u>12,619,111</u>	<u>11,862,079</u>	<u>11,817,727</u>
Pension/OPEB related	<u>131,111</u>	<u>314,038</u>	<u>294,228</u>
<b>Total Deferred Inflows of Resources</b>	<u>131,111</u>	<u>314,038</u>	<u>294,228</u>
<b>Net Position</b>			
Net investment in capital assets	3,851,048	3,834,883	3,715,079
Restricted	451,565	512,049	572,586
Unrestricted	<u>1,705,458</u>	<u>2,191,157</u>	<u>2,584,359</u>
<b>Total Net Position</b>	<u><u>6,008,071</u></u>	<u><u>6,538,089</u></u>	<u><u>6,872,024</u></u>

## Todd County Water District Management's Discussion and Analysis

By far the largest portion of the District's net position in the amount of \$3,715,079 reflects its investment in capital assets (e.g., infrastructure, buildings, equipment, and vehicles). This is a decrease from \$3,834,883 for the 2021 fiscal year and \$3,851,048 in the 2020 fiscal year. The District's net position increased in 2020 from \$3,392,360 in 2019 to \$3,851,048. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Unrestricted net assets in the amount \$2,584,359 may be used to meet the District's ongoing obligation to customers and creditors. This is an increase from \$2,191,157 from the 2021 fiscal year and \$1,705,458 from the 2020 fiscal year. The remaining restricted net position is for replacement reserves for future years.

Deferred Outflows of Resources increased to \$366,997 in 2022 from \$323,634 in 2021. Deferred Outflows of Resources decreased in 2021 from \$334,887 in 2020. This increase included \$192,589 in pension related outflows and \$130,357 in OPEB related outflows.

At December 31, 2022, and 2021, the District is able to report positive balances in all categories of net assets.

### Changes in Net Position

	<u>2020</u>	<u>2021</u>	<u>2022</u>
Revenues			
Water service revenues	2,585,671	2,998,296	2,880,292
Other revenues	75,340	40,613	41,905
<b>Total Operating Revenues</b>	<u>2,661,011</u>	<u>3,038,909</u>	<u>2,922,197</u>
Expenses			
Water operations	2,253,055	2,523,668	2,501,988
<b>Total Operating Expenses</b>	<u>2,253,055</u>	<u>2,523,668</u>	<u>2,501,988</u>
<b>Net Operating (Loss) Income</b>	407,956	515,241	420,209
Non-operating revenue (expenses), net	(144,358)	(197,404)	(160,656)
<b>Income Before Capital Contributions</b>	263,598	317,837	259,553
Capital contributions	578,775	212,181	74,382
<b>Change in Net Position</b>	842,373	530,018	333,935

## Todd County Water District Management's Discussion and Analysis

Net Position – Beginning of Year, as previously reported	5,165,698	6,008,071	6,538,089
	<hr/>	<hr/>	<hr/>
<b>Net Position – End of Year</b>	<b><u>6,008,071</u></b>	<b><u>6,538,089</u></b>	<b><u>6,872,024</u></b>

### • Revenues

**Water sold** is the Water District's primary source of revenue. For the fiscal year of 2022 revenue from water sold was \$2,846,933 a decrease from \$2,961,648 in the 2021 year. This is a decrease of \$114,715, due to locating large customer leaks. In 2021, Water sold increased by \$391,032 to \$2,961,648 compared to \$2,570,616 in the 2020 year reflecting the high usage of a large industrial customer.

**Capital grants and contributions** totaled \$74,382 for fiscal year 2022. These funds were received from customers for tap on fees and from USDA grant funds. This is a decrease from \$212,181 for the fiscal year of 2021. There was a decrease in the 2021 fiscal year from \$578,775 for the fiscal year of 2020.

**Unrestricted investment earnings** totaled \$7,701 for the fiscal year 2021 and increased \$4,825 to \$12,526 for the 2022 fiscal year. The unrestricted investment earnings decreased from \$24,310 in 2020 to \$7,701 in 2021; a total decrease of \$16,609. The increase represents the improved interest rates on investments. The District earned its investment revenues by placing idle cash in Certificates of Deposits and Reserve Funds.

**Debt service and facility reserve**—the District refinanced loans at a lower interest rate, but maintained the principal payment amount to decrease the loan term.

**Other operating revenues** totaled \$75,264 for the fiscal year 2022 which was a decrease from the prior year. The 2021 total for Other Operating Revenue was \$77,261 and 2020 was \$90,395. This revenue is from late charges and other miscellaneous charges.

### • Expenses

**Operating expenses** totaled \$2,501,988 for the fiscal year 2021 which was a decrease from the 2021 amount of \$2,523,668. There was an increase in 2021 from the 2020 amount of \$2,253,055. These expenses relate directly to the everyday operations of the District such as payroll, transmission and distribution, and purchased water.

**Interest expense** totaled \$196,193 for the 2022 fiscal year. This is a decrease from \$205,105 for fiscal year 2021. There was an increase in 2021 from \$168,668 for the 2020 fiscal year.

**Change in net position** for 2022 was \$333,935 compared to \$530,018 in 2021. The change in net position for 2020 was \$842,373.

## **• Capital Assets and Debt Administration**

### **► Capital Assets**

The District's capital assets at December 31, 2022 amounts to \$13,423,205 (net of accumulated depreciation). Capital assets includes infrastructure, buildings, equipment and vehicles. This is a decrease from \$13,967,003 for the 2021 fiscal year. Capital assets for the 2020 fiscal year was \$14,336,736.

Additional information on the District's capital assets can be found in Note 4 of the financial statements.

### **► Long-Term Debt**

Long-term debt, net of current portion, totaled \$11,267,498 at December 31, 2022, a decrease from \$11,547,150 for the 2021 fiscal year. Outstanding debt at year-end was to finance the District's infrastructure. The only activity for debt was the servicing requirements and borrowing for the expansion projects. In 2022, the net pension liability relating to GASB 68 totaled \$929,001 which was an increase compared to \$866,405 in 2021. This was a decrease compared to \$990,568 in 2020. In 2022, the net OPEB liability relating to GASB 75 totaled \$253,577 which was a decrease compared to \$260,097 in 2021. This was a decrease compared to \$311,761 in 2020.

### **► Operation and Maintenance Budgetary Highlights**

The District's O & M budget was increased by 3 percent over the prior year. Variances between the revenues that were budgeted and the actual amounts collected are not significant.

Any variances are not expected to have a significant effect on future services or liquidity of the District.

Also now having Budgetary Influence on the Water District are the effects of the adoption of GASB 68. These effects are noted beginning on page 26 "Employee Retirement Plan" thru page 31.

### **► Economic Factors and Next Year's Budget and Rates**

The District's primary source of revenue is water sold to customers. This revenue will vary along with the number of customers the Water District has at any given time.

The costs of water and line loss are areas the District continually monitor as they have the most direct impact on the operations of the District.

During the current fiscal year, the Operation and Maintenance account balance decreased to \$107,834. This is a change (decrease) from the 2021 balance of \$264,026. This decrease is due to the purchase of certificates of deposits. There was an increase in the 2021 fiscal year from \$210,660 in the 2020 fiscal year.

## **Todd County Water District Management's Discussion and Analysis**

### **• Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information should be addressed to Todd County Water District, PO Box 520, Elkton, KY 42220.

**Todd County Water District**  
**Statements of Net Position**

<i>December 31,</i>	<b>2022</b>	2021
<b>Assets</b>		
Current assets		
Cash	\$ 170,815	\$ 264,026
Short-term investments	3,257,473	2,800,711
Accounts receivable — billed	250,310	209,984
Accounts receivable — unbilled	145,589	114,743
Supplies inventory	102,606	73,178
Prepaid expenses	44,655	38,884
<b>Total current assets</b>	<b>3,971,448</b>	3,501,526
<b>Cash — restricted</b>	<b>1,222,329</b>	922,043
Utility plant		
Utility plant in service	24,518,876	24,407,558
Less: accumulated depreciation	(11,095,671)	(10,440,555)
<b>Net utility plant</b>	<b>13,423,205</b>	13,967,003
<b>Total assets</b>	<b>18,616,982</b>	18,390,572
<b>Deferred outflows of resources</b>		
Deferred amount on debt refundings	44,051	38,534
Pension related	192,589	136,622
OPEB related	130,357	148,478
<b>Total deferred outflows of resources</b>	<b>366,997</b>	323,634

-Continued-

*The accompanying notes are an integral part of these financial statements.*

**Todd County Water District**  
**Statements of Net Position**  
**(Continued)**

<i>December 31,</i>	<b>2022</b>	2021
<b>Liabilities</b>		
Current liabilities		
Accounts payable	93,861	78,321
Accrued liabilities	36,787	32,182
Accrued interest payable	102,581	44,426
Current portion of notes payable	317,000	160,000
<b>Total current liabilities</b>	<b>550,229</b>	314,929
Noncurrent liabilities		
Long-term debt, due after one year	9,867,500	10,184,500
Net unamortized bond premium	217,420	236,148
Net pension liability	929,001	866,405
Net OPEB liability	253,577	260,097
<b>Total noncurrent liabilities</b>	<b>11,267,498</b>	11,547,150
<b>Total liabilities</b>	<b>11,817,727</b>	11,862,079
<b>Deferred Inflows of Resources</b>		
Pension related	143,389	167,349
OPEB related	150,839	146,689
<b>Total deferred inflows of resources</b>	<b>294,228</b>	314,038
<b>Net Position</b>		
Net investment in capital assets	3,715,079	3,834,883
Restricted	572,586	512,049
Unrestricted	2,584,359	2,191,157
<b>Total net position</b>	<b>\$ 6,872,024</b>	<b>\$ 6,538,089</b>

*The accompanying notes are an integral part of these financial statements.*

## Todd County Water District Statements of Revenues, Expenses and Changes in Net Position

<i>For the years ended December 31,</i>	<b>2022</b>	<b>2021</b>
<b>Operating Revenues</b>		
Water revenue	\$ 2,846,933	\$ 2,961,648
Late charges	33,359	36,648
Other	41,905	40,613
<b>Total operating revenues</b>	<b>2,922,197</b>	<b>3,038,909</b>
<b>Operating Expenses</b>		
Payroll	379,459	352,076
Retirement	97,839	110,728
Health insurance	41,359	33,931
Payroll taxes	27,579	25,784
Purchased water	882,494	954,967
Transmission and distribution	145,933	157,995
Contract services	30,216	24,683
Utilities	18,456	17,433
Telephone	4,088	4,716
Dues and subscriptions	13,127	9,931
Professional fees	21,894	25,659
Insurance	31,942	30,188
Commissioners' fees	18,000	18,000
Taxes and licenses	4,833	5,278
Office supplies and postage	55,496	42,770
Depreciation	674,852	619,361
Travel	36,347	24,311
Debt Issuance Cost	-	49,765
Bad debts	11,209	11,544
Miscellaneous	6,865	4,548
<b>Total operating expenses</b>	<b>2,501,988</b>	<b>2,523,668</b>
<b>Operating income</b>	<b>420,209</b>	<b>515,241</b>

-Continued-

*The accompanying notes are an integral part of these financial statements.*

**Todd County Water District**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**(Continued)**

<i>For the years ended December 31,</i>	<b>2022</b>	<b>2021</b>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	<b>12,526</b>	7,701
Gain on sale of capital assets	<b>23,011</b>	-
Interest expense	<b>(196,193)</b>	(205,105)
<b>Total nonoperating expenses - net</b>	<b>(160,656)</b>	(197,404)
Income before capital contributions	<b>259,553</b>	317,837
Capital contributions	<b>74,382</b>	212,181
Change in net position	<b>333,935</b>	530,018
Net position — beginning of year	<b>6,538,089</b>	6,008,071
Net position — end of year	<b>\$ 6,872,024</b>	<b>\$ 6,538,089</b>

*The accompanying notes are an integral part of these financial statements.*

## Todd County Water District Statements of Cash Flows

<i>For the years ended December 31,</i>	<b>2022</b>	<b>2021</b>
<b>Operating Activities</b>		
Cash received from customers	\$ 2,851,025	\$ 2,662,780
Cash payments to suppliers for goods and services	(1,278,891)	(1,041,268)
Cash paid to employees	(564,879)	(501,620)
Net cash provided by operating activities	<b>1,007,255</b>	<b>1,119,892</b>
<b>Capital and Related Financing Activities</b>		
Interest paid on long-term debt	(159,367)	(272,565)
Purchase of capital assets	(145,074)	(249,628)
Proceeds from sale of capital assets	34,115	-
Premium on bonds	-	173,870
Proceeds from long-term debt	-	1,085,000
Principal payments on long-term debt	(160,000)	(1,717,500)
Capital contributions	74,382	212,181
Net cash used in capital and related financing activities	<b>(355,944)</b>	<b>(768,642)</b>
<b>Investing Activities</b>		
Interest income	12,526	7,701
Purchase of investments	(456,762)	(356,134)
Net cash used in investing activities	<b>(444,236)</b>	<b>(348,433)</b>
Net increase in cash	<b>207,075</b>	<b>2,817</b>
Cash - beginning of year	<b>1,186,069</b>	<b>1,183,252</b>
Cash - end of year	<b>\$ 1,393,144</b>	<b>\$ 1,186,069</b>

*The accompanying notes are an integral part of these financial statements.*

## Todd County Water District Statements of Cash Flows

<i>For the years ended December 31,</i>	<b>2022</b>	<b>2021</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 420,209	\$ 515,241
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	674,852	619,361
Pension expense in excess of pension contributions	(17,331)	16,685
OPEB expense variance from contributions	15,751	7,639
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
(Increase) decrease in assets and deferred outflows		
Accounts receivable	(71,172)	21,497
Inventory	(29,428)	8,826
Prepaid expenses	(5,771)	(8,271)
Increase (decrease) in liabilities and deferred inflows		
Accounts payable	15,540	(83,697)
Accrued liabilities	4,605	22,611
Net cash provided by operating activities	\$ 1,007,255	\$ 1,119,892

*The accompanying notes are an integral part of these financial statements.*

## **Todd County Water District Notes to Financial Statements**

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Nature of Business***

The Todd County Water District (the "District") was chartered in 1971. It is a distributor of water under the authority of the Public Service Commission of Kentucky. The District provides service to customers in Todd County and a small area in Logan and Muhlenberg Counties.

#### ***Reporting Entity***

The District is governed by a five-member board (the "Board"). The criteria for determining the District as a component unit of Todd County, Kentucky, the primary government, is financial accountability. As set forth in Section 2100, *Defining the Financial Reporting Entity*, of the Governmental Accounting Standards Board (GASB) Codification, a primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to impose its will on that organization. The majority of the Commissioners of the Board are appointed by the Todd County Judge Executive subject to the approval of the Todd County Fiscal Court. Todd County is able to impose its will on the District through the ability to remove appointed members of the Board at will and the ability to modify or approve the budget of the District.

#### ***Measuring Focus, Basis of Accounting, and Financial Statement Presentation***

The District's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the District conform to applicable generally accepted accounting principles as defined in the pronouncements of GASB. The District's basic financial statements include only proprietary fund financial statements because the District engages only in a single business-type activity.

The District operates as an enterprise activity, using the flow of economic resources measurement focus. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with the enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and service, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the

## **Todd County Water District**

### **Notes to Financial Statements**

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### ***Use of Estimates (Continued)***

date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to the net pension liability and net OPEB liability.

##### ***Investments***

Investments consist of non-participating/non-negotiable certificates of deposit and are recorded at cost. The cost of investments approximates their fair value. KRS 66.480 permits the District to invest in U.S. Treasury obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit and the Commonwealth of Kentucky investment pool.

##### ***Accounts Receivable***

Billed receivables are stated at the amount billed to customers. Unbilled receivables are recorded for services provided for which customers have not been billed at December 31, 2022 and 2021. The District's operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 10<sup>th</sup> of each month. Accounts unpaid on the 25<sup>th</sup> of each month are considered delinquent and service is disconnected. The District provides no allowance for doubtful accounts due to the historical nature of the accounts receivable and the District's ability to disconnect service. Delinquent receivables are written off. New service is denied until all outstanding balances have been settled.

##### ***Supplies Inventory***

Operating supplies is stated at the lower of cost, determined by first-in first-out ("FIFO") method, or net realizable value. The cost of such supplies inventory is recorded as an expense when consumed rather than when purchased.

##### ***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

##### ***Restricted Assets***

Certain proceeds of the bond issues and certain resources set aside for their repayment along with reserves for depreciation of plant are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

## Todd County Water District Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Utility Plant***

Expenditures for utility plant with an original cost of \$500 or more are capitalized at cost, while maintenance and repairs are charged to operations when incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction in progress are not depreciated. The other property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings & Improvements	20-40 years
Mains - Water Distribution	30 years
Meters	20 years
Service Lines	40 years
Storage Tanks	30 years
Trucks	10 years
Hydrants	40 years
Furniture & Fixtures	5-10 years
Equipment	5-10 years

#### ***Bond Discount and Premiums***

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Unamortized amounts are reflected in the long term obligations in the financial statements.

#### ***Deferred Inflows and Outflows of Resources – Debt Related***

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of the financial statements. The deferred outflows of resources reported in the financial statements include the deferred amount arising from the refunding of bonds. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. The deferred inflows of resources reported in the financial statements include the deferred gain on debt defeasance. The deferred gain is being amortized over the remaining life of the bond as part of other revenues.

#### ***Deferred Inflows and Outflows of Resources – Pension Related***

The District's statement of net position reports a separate section for deferred inflows and outflows of resources related to pension which includes only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on plan investments. Deferred outflows include resources for the District's contributions made subsequent

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Deferred Inflows and Outflows of Resources – Pension Related (Continued)***

to the measurement date. 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.

Deferred inflows of resources also include changes in the proportion and differences between employee contributions and the proportion share of contributions in the cost sharing plan.

***Deferred Inflows and Outflows of Resources – OPEB Related***

The District's statement of net position reports a separate section for deferred inflows and outflows of resources related to OPEB which includes only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on plan investments. Deferred outflows include resources for the District's contributions made subsequent to the measurement date. 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.

***Long-Term Debt***

Debt is a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

***Net Pension Liability***

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Certified Employees Retirement System (CERS) and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The District proportionate share of pension amounts were further allocated to each participating employer based on the contributions paid by each employer. Pension investments are reported at fair value. Note 8 provides further detail on the net pension liability.

***Net Other Post-Employment Benefits (OPEB) Liability***

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Certified Employees Retirement System (CERS) and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The District's proportionate share of OPEB amounts were further allocated to each participating employer based on the contributions paid by each employer. OPEB investments are reported at fair value, except for money

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Net Other Post-Employment Benefits (OPEB) Liability (Continued)***

market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. Note 9 provides further detail on the net OPEB liability.

***Post-Employment Health Care Benefits***

Retired District employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS plan.

***Income Taxes***

The District is exempt from federal and state income taxes under Section 501 of the Internal Revenue Code.

***Contributions of Capital***

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

***Net Position***

Net position is classified into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

*Net Investment in Capital Assets* — This component of net position consists of the District's total investment in capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of the net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* — This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted assets will be reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability

## Todd County Water District Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Net Position (Continued)***

relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

*Unrestricted Net Position* — This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

#### ***Concentration of Credit Risk***

The majority of the District's business activity is with customers located within Todd and Logan County, Kentucky. The District extends credit to all citizens who live within the geographic location of the District and who utilize the utility system. Credit losses are usually minimal and are generally within management's expectations.

#### ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through May 18, 2023, which was the date the financial statements were made available. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

#### ***Recently Issued and Implemented Accounting Pronouncements***

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As of January 1, 2021, the Statement is being applied prospectively, therefore, there were no significant impacts of implementing this Statement for the 2021 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. As of January 1, 2022, this Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Recently Issued and Implemented Accounting Pronouncements (Continued)***

leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The implementation of this standard did not have a significant effect on the District.

***Recently Issued Accounting Pronouncements***

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

GASB Statement No. 100, *Accounting Changes and Error Corrections*, This Statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected

## Todd County Water District Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Recent Issued Accounting Pronouncements (Continued)*

by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The District is evaluating the requirements of the above statements and the impact on reporting.

### NOTE 2: CASH AND INVESTMENTS

#### *Deposits*

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2022 and 2021, respectively, the carrying amounts of the District's deposits were \$4,650,617 and \$3,986,780 and the bank balances were \$4,676,624 and \$3,991,045. Of the bank balances, \$4,652,368 and \$3,720,563 was covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name and \$24,256 and \$270,482 was uninsured and uncollateralized.

<i>December 31,</i>	<b>2022</b>	2021
Cash	\$ 170,815	\$ 264,026
Investments	3,257,473	2,800,711
Restricted cash	1,222,329	922,043
	<b>\$ 4,650,617</b>	<b>\$ 3,986,780</b>

#### *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute for bank deposits to be collateralized. As of December 31, 2022 and 2021, \$24,256 and \$270,482 of the District's bank balance was exposed to custodial credit risk.

#### *Credit Risk*

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and

## Todd County Water District Notes to Financial Statements

### NOTE 2: CASH AND INVESTMENTS (CONTINUED)

#### *Credit Risk (Continued)*

securities in mutual funds shall be eligible investments pursuant to this section. The District has an investment policy that requires additional investments to be in the form of a certificate of deposit.

#### *Concentration of Credit Risk*

The District places no limit on the amount the District may invest in any one issuer. At December 31, 2022 and 2021, there are no investments in any one issuer that represents 5% or more of the total investments.

#### *Interest Rate Risk*

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

### NOTE 3: CASH – RESTRICTED

Restricted cash consists of the following at:

<i>December 31,</i>	<b>2022</b>	2021
Construction	\$ 1,284	\$ 1,284
Depreciation reserve	571,302	510,765
Debt service reserve	649,743	409,994
	<b>\$ 1,222,329</b>	<b>\$ 922,043</b>

Certain bond agreements require the District to maintain replacement and debt sinking reserves. The construction amount is unspent bond proceeds from the District's last construction project.

**Todd County Water District**  
**Notes to Financial Statements**

**NOTE 4: UTILITY PLANT**

Utility plant activity is as follows:

<i>December 31, 2022</i>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements/ Reclassifications</b>	<b>Ending Balance</b>
<b>Capital assets that are not depreciated:</b>				
Land and land improvements	\$ 116,229	\$ -	\$ -	\$ 116,229
Total non-depreciable cost	116,229	-	-	116,229
<b>Capital assets that are depreciated:</b>				
Structures and Improvements	3,278,494	-	-	3,278,494
Distribution reservoirs and standpipes	3,233,074	-	-	3,233,074
Transmission and distribution mains	15,090,216	67,308	-	15,157,524
Meters and installations	2,313,556	74,141	(2,530)	2,385,167
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	274,316	3,625	(28,726)	249,215
Office equipment	86,398	-	-	86,398
Power operating equipment	2,500	-	(2,500)	-
Communication equipment	2,875	-	-	2,875
Total depreciable historical cost	24,291,329	145,074	(33,756)	24,402,647
Accumulated depreciation	(10,440,555)	(674,852)	19,736	(11,095,671)
	13,850,774	(529,778)	(14,020)	13,306,976
Utility plant, net	\$ 13,967,003	\$ (529,778)	\$ (14,020)	\$ 13,423,205

**Todd County Water District**  
**Notes to Financial Statements**

**NOTE 4: UTILITY PLANT (CONTINUED)**

<i>December 31, 2021</i>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements/ Reclassifications</b>	<b>Ending Balance</b>
<b>Capital assets that are not depreciated:</b>				
Land and land improvements	\$ 116,229	\$ -	\$ -	\$ 116,229
Construction in progress	3,494,112	116,241	(3,610,353)	-
Total non-depreciable cost	3,610,341	116,241	(3,610,353)	116,229
<b>Capital assets that are depreciated:</b>				
Structures and Improvements	1,110,829	56,051	2,111,614	3,278,494
Distribution reservoirs and standpipes	3,233,074	-	-	3,233,074
Transmission and distribution mains	13,596,740	3,701	1,489,775	15,090,216
Meters and installations	2,253,460	51,132	8,964	2,313,556
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	258,711	15,605	-	274,316
Office equipment	79,500	6,898	-	86,398
Power operating equipment	2,500	-	-	2,500
Communication equipment	2,875	-	-	2,875
Total depreciable historical cost	20,547,589	133,387	3,610,353	24,291,329
Accumulated depreciation	(9,821,194)	(619,361)	-	(10,440,555)
	10,726,395	(485,974)	3,610,353	13,850,774
Utility plant, net	\$ 14,336,736	\$ (369,733)	\$ -	\$ 13,967,003

**Todd County Water District**  
**Notes to Financial Statements**

**NOTE 5: LONG-TERM DEBT**

Long-term debt consists of the following:

<i>December 31,</i>	<b>2022</b>	2021
Revenue bonds, payable in annual principal installments, plus interest at 3.00%, maturing in January 2052	<b>\$ 854,500</b>	\$ 854,500
Revenue bonds, payable in annual principal installments, plus interest at 1.50%, maturing in January 2060	<b>2,954,000</b>	2,954,000
Revenue bonds, payable in annual principal installments, plus interest at 1.50%, maturing in January 2060	<b>3,091,000</b>	3,091,000
Revenue bonds, payable in annual principal installments, plus interest of varying rates between 2% and 5%, maturing in January 2042	<b>2,280,000</b>	2,360,000
Revenue bonds, payable in annual principal installments, plus interest of varying rates between 3.20% and 5.20%, maturing in July 2032	<b>1,005,000</b>	1,085,000
	<b>10,184,500</b>	10,344,500
Less: current portion	<b>(317,000)</b>	(160,000)
	<b>\$ 9,867,500</b>	\$ 10,184,500

On October 19, 2021, the District issued \$1,085,000 in General Obligation Bonds with an average interest rate of 3.20 percent to refund \$1,265,000 of outstanding 2012 Series bonds with an interest rate of 3.55 percent. The net proceeds of \$1,225,159 (after payment of \$40,485 in underwriting fees, insurance, and other issuance costs and plus net premium of \$180,644) plus an additional \$49,121 of 2012 Series sinking fund monies were used to refund the 2012 Series bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$18,857. This difference, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2032 using the effective-interest method. The District completed the refunding to reduce its total debt service payments over the next 11 years by \$147,188 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$126,762.

**Todd County Water District**  
**Notes to Financial Statements**

**NOTE 5: LONG-TERM DEBT (CONTINUED)**

Activity in long-term debt is as follows:

*December 31, 2022*

	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	\$ 10,344,500	\$ -	\$ 160,000	\$ 10,184,500
	\$ 10,344,500	\$ -	\$ 160,000	\$ 10,184,500

*December 31, 2021*

	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	\$ 10,977,000	\$ 1,085,000	\$ 1,717,500	\$ 10,344,500
	\$ 10,977,000	\$ 1,085,000	\$ 1,717,500	\$ 10,344,500

The annual debt service requirements to maturity, including principal and interest, as of December 31, 2022 are as follows:

Year	Principal	Interest	Total Debt Service
2023	\$ 317,000	\$ 225,789	\$ 542,789
2024	334,500	214,116	548,616
2025	347,500	201,621	549,121
2026	360,000	188,564	548,564
2027	377,500	174,951	552,451
2028-2032	1,763,500	701,776	2,465,276
2033-2037	1,458,500	524,158	1,982,658
2038-2042	1,590,500	379,201	1,969,701
2043-2047	1,011,500	255,053	1,266,553
2048-2052	1,062,000	161,430	1,223,430
2053-2057	960,000	81,600	1,041,600
2058-2060	602,000	13,486	615,486
	\$ 10,184,500	\$ 3,121,745	\$ 13,306,245

## **Todd County Water District** **Notes to Financial Statements**

### **NOTE 5: LONG-TERM DEBT (CONTINUED)**

The District has pledged future water customer revenues, net of specified operating expenses, to repay \$10,184,500 in water system Revenue Bonds Series 2011, 2020, and 2021. Proceeds from the borrowings provided financing for the construction of the utility plant. The bonds are payable solely from water customer net revenues and are payable through 2060. The total principal and interest remaining to be paid on the bonds is \$13,306,245. Principal and interest paid for the current year and total customer net revenues were \$319,367 and \$2,922,197 respectively. Principal and interest paid and total customer net revenues for the year ended December 31, 2021 were \$837,605 and \$3,038,909, respectively.

The District has various financial and non-financial debt covenants and restrictions as set forth in the bond and loan agreements. Failure to fulfill any of the debt covenants and restrictions, or failure to cure any such failure within 30 days, constitute an event of default. In the event of default, the respective owners of the bonds may enforce and compel the duties and obligations set forth within the bond agreement.

### **NOTE 6: COMMITMENTS AND CONTINGENCIES**

Grant monies received and disbursed by the District are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon experience, the District does not believe that such disallowance, if any, would have a material effect on the financial position of the District.

### **NOTE 7: MAJOR SUPPLIER**

The District has entered into a water purchase contract with the Logan/Todd Regional Water Commission, whereas the contract requires the Commission to provide water to the District and the rates the District will be charged for the expected water usage are defined therein. The contract will extend for a term of 50 years beginning January 1, 2003. The agreement may be renewed or extended for such term or terms as may be agreed upon by the Commission and the District.

Under terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing water from the Commission in March 2003; therefore, the Commission is the sole provider of water to the District. The agreement does require the District to purchase minimum levels of water from the Commission. If minimum levels are not met, the Commission may charge the District for the shortages. At December 31, 2022 and 2021 minimum levels have been met.

**NOTE 8: EMPLOYEES' RETIREMENT PLANS**

***General information about the County Employees Retirement System Non-Hazardous ("CERS")***

**Plan Description**

The District contributes to the Non-Hazardous CERS plan, a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the plan. CERS is administered by the Board of Trustees of the Kentucky Retirement System. CERS issues a publicly available financial report that can be obtained at [www.kyret.ky.gov](http://www.kyret.ky.gov).

**Benefits Provided**

CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, Cost of Living Adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011.

*Tier 1* - Non-Hazardous Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on a member's account at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

*Tier 2* - Non-Hazardous Tier 2 plan members, who began participating on or after September 1, 2008, and before January 1, 2014, are required to contribute 6% of their annual creditable compensation. Further, 1% of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund (see Kentucky Administrative Regulation (KAR) 105 KAR 1:420). These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on member's accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest, however, the 1% Health Insurance Contribution (HIC) to the 401(h) account is non-refundable and is forfeited.

*Tier 3* - Non-Hazardous Tier 3 plan members who began participating on, or after, January 1, 2014, are 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 contribute 5% of their monthly creditable compensation which is deposited into their account, and an additional 1% which is deposited to an account created for payment of health insurance benefits under 26 USC Section 401(h) in the

**NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)**

**Benefits Provided (Continued)**

Insurance Fund (see 105 KAR 1:420), which is not refundable. Tier 3 member accounts are also credited with an employer pay credit in the amount of 4% of the member's monthly creditable compensation. The employer pay credit amount is deducted from the total employer contribution rate paid on the member's monthly creditable compensation. If a vested (60 months of service) member terminates employment and applies to take a refund, the member is entitled to the members contributions (less HIC) plus employer pay credit plus interest (for both employee contributions and employer pay). If a non-vested (less than 60 months) member terminates employment and applies to take a refund, the member is entitled to receive employee contributions (less HIC) plus interest (on employee contributions only).

**Contributions**

Employers participating in the CERS were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.454(33), normal contribution and past service contribution rates shall be determined by the KRS Board of Trustees on the basis of an annual valuation last preceding the July 1 of a new biennium. The KRS Board of Trustees may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board of Trustees. For the fiscal year ended June 30, 2022 and 2021, participating employers contributed 22.78% and 19.30%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the KRS Board of Trustees for the fiscal years June 30, 2022 and 2021 was 22.78% and 19.30%, respectively. The effective actuarially determined rate at December 31, 2022 and 2021 was 23.40% and 22.78%, respectively.

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

At December 31, 2022, and 2021 the District reported a liability of \$929,001 and \$866,405, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 and June 30, 2020, respectively. The pension liability was rolled forward from the valuation date to the measurement date of June 30, 2022 and June 30, 2021. The District's proportion of the net pension liability was based on the District's share of 2022 and 2021 contributions to the pension plan relative to the 2022 and 2021 contributions of all participating employers, actuarially determined. At June 30, 2022 and 2021 the District's proportion was 0.012851% and 0.013589%, respectively.

For the years ended December 31, 2022 and 2021, the District recognized pension expense of \$73,054 and \$87,023, respectively. At December 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Todd County Water District**  
**Notes to Financial Statements**

**NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)**

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

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 993	\$ 8,273	\$ 9,949	\$ 8,409
Net difference between projected and actual investment earnings on pension plan investments	126,409	102,593	33,611	149,088
Change of assumptions	-	-	11,628	-
Changes in proportion and differences between employer contributions and proportionate share of contribution	18,716	32,523	44,400	9,852
District contributions subsequent to the measurement date	46,471	-	37,034	-
Total	<u>\$ 192,589</u>	<u>\$ 143,389</u>	<u>\$ 136,622</u>	<u>\$ 167,349</u>

The \$46,471 and \$37,034 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2023 and 2022, respectively.

As of December 31, 2022, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	
2023	\$ (1,446)
2024	(14,409)
2025	(7,807)
2026	26,391
2027	-

## Todd County Water District Notes to Financial Statements

### NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

#### 2022 Actuarial Assumptions

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

There have been no changes in actuarial assumptions since June 30, 2021. The actuarial assumptions are:

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

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

#### 2021 Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

The plan adopted new actuarial assumptions since June 30, 2020, which were used to determine the total pension liability as follows:

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

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates

## Todd County Water District Notes to Financial Statements

### NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

#### 2021 Actuarial Assumptions (Continued)

from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

#### 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 table below.

	<u>2022</u>	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
<b>Expected Real Return</b>	<b>100.0%</b>	<b>4.28%</b>
<b>Long Term Inflation Assumption</b>		<b>2.30%</b>
<b>Expected Nominal Return for Portfolio</b>		<b>6.58%</b>

## Todd County Water District Notes to Financial Statements

### NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

#### Long-Term Expected Rate of Return (Continued)

	<u>2021</u>	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>Growth</b>	<b>68.50%</b>	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special Credit/High Yield	15.00%	2.80%
<b>Liquidity</b>	<b>11.50%</b>	
Core Bonds	10.0%	0.00%
Cash	1.50%	-0.60%
<b>Diversifying Strategies</b>	<b>20.00%</b>	
Real Estate	10.0%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.0%	4.55%
<b>Expected Real Return</b>	<b>100.0%</b>	<b>5.00%</b>
<b>Long Term Inflation Assumption</b>		<b>2.30%</b>
<b>Expected Nominal Return for Portfolio</b>		<b>7.30%</b>

#### 2022 and 2021 Discount Rate

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

#### Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

## Todd County Water District Notes to Financial Statements

### NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

#### Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Continued)

2022:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 1,161,135	\$ 929,001	\$ 737,006

2021:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 1,111,206	\$ 866,405	\$ 663,839

#### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS plan's ACFR.

### NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

#### General Information about the County Employees Retirement System's (CERS) OPEB Plan

##### Plan Description

The District's employees are provided OPEB under the provisions of Kentucky Revised Statutes, the Kentucky Retirement Systems (KRS) board administers the KRS Insurance Fund. The KRS Insurance Fund is a cost sharing, multiple employer defined benefit OPEB plan which provides group health insurance benefits for plan members that are all regular full-time members employed in non-hazardous duty positions of the District. OPEB may be extended to beneficiaries of the plan members under certain circumstances. The CERS Insurance Fund is included in a publicly available financial report that can be obtained at [www.kyret.ky.gov](http://www.kyret.ky.gov).

##### Benefits Provided

The Insurance Fund provides hospital and medical benefits to eligible plan members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Premium payments are submitted to DEI and Humana. The KRS board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare

## **Todd County Water District Notes to Financial Statements**

### **NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

#### **Benefits Provided (Continued)**

Advantage Plan. The CERS Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

#### **Contributions**

Employers participating in the KRS Insurance Fund contribute a percentage of each employee's creditable compensation. The actuarially determined rates set by the boards is a percentage of each employee's creditable compensation. For the years ended June 30, 2022 and 2021, the required contribution was 4.17% and 5.78%, respectively, of each employee's covered payroll. Contributions from the District to the KRS Insurance Fund for the years ended December 31, 2022 and 2021, were \$14,132 and \$18,326, respectively. The KRS board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS board. Employees qualifying as Tier 2 or Tier 3 of the CERS plan members contribute 1% of creditable compensation to an account created for the payment of health insurance benefits.

#### **Implicit Subsidy**

The fully-insured premiums paid for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB No. 74 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

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

At December 31, 2022 and 2021, the District reported a liability of \$253,577 and \$260,097, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022 and 2021, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021 and June 30, 2020, respectively. The OPEB liability was rolled forward from the valuation date to the measurement date of June 30, 2022 and 2021. The District's proportion of the net OPEB liability was based on the District's share of 2022 and 2021 contributions to the OPEB plan relative to the 2022 and 2021 contributions as of all participating employers, respectively, actuarially determined. At June 30, 2022 and 2021, the District's proportion was 0.012849% and 0.013586%, respectively.

For the years ended December 31, 2022 and 2021, the District recognized OPEB expense of approximately \$35,393 and \$33,654.

**Todd County Water District**  
**Notes to Financial Statements**

**NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

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

At December 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 25,525	\$ 58,151	\$ 40,900	\$ 77,656
Net difference between projected and actual investment earnings on OPEB plan investments	47,219	36,927	13,104	53,793
Change of assumptions	40,105	33,046	68,957	242
Changes in proportion and differences between employer contributions and proportionate share of contribution	10,776	22,715	15,406	14,998
District contributions subsequent to the measurement date	6,732	-	10,111	-
Total	<u>\$ 130,357</u>	<u>\$ 150,839</u>	<u>\$ 148,478</u>	<u>\$ 146,689</u>

For the years ended December 31, 2022 and 2021, \$6,732 and \$10,111, respectively, was reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the years ended December 31, 2023 and 2022, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended December 31:</u>	
2023	\$ (3,533)
2024	(4,870)
2025	(17,368)
2026	(1,443)
2027	-

## Todd County Water District Notes to Financial Statements

### NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

#### 2022 Actuarial Assumptions

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles. The plan adopted new actuarial assumptions since June 30, 2021, which were used to determine the total OPEB liability as follows:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 9.00% in 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Mortality (Pre-retirement)	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Mortality (Post-retirement; non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Mortality (Post-retirement; disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

#### 2021 Actuarial Assumptions

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles. There have been no changes in plan provisions since June 30, 2020. The plan adopted new actuarial assumptions since June 30, 2020, which were used to determine the total OPEB liability as follows:

## Todd County Water District Notes to Financial Statements

### NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

#### 2021 Actuarial Assumptions (Continued)

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
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.
Healthcare Trend Rates (Post-65)	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Mortality (Pre-retirement)	PUB-2010 General Mortality table, for the Non-Hazardous Plans, and the PUB-2010 Public Safety Mortality table for the Hazardous Plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Mortality (Post-retirement; non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Mortality (Post-retirement; disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

#### 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.

**Todd County Water District**  
**Notes to Financial Statements**

**NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**Long-Term Expected Rate of Return (Continued)**

	<u>2022</u>	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Bonds	10.0%	0.28%
Specialty Credit/High Yield	10.0%	2.28%
Cash	0.00%	-0.91%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.0%	3.67%
Real Return	13.0%	4.07%
<b>Expected Real Return</b>	<b>100.0%</b>	<b>4.28%</b>
<b>Long Term Inflation Assumption</b>		<b>2.30%</b>
<b>Expected Nominal Return for Portfolio</b>		<b>6.58%</b>

	<u>2021</u>	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>Growth</b>	<b>68.50%</b>	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special Credit/High Yield	15.00%	2.80%
<b>Liquidity</b>	<b>11.50%</b>	
Core Bonds	10.0%	0.00%
Cash	1.50%	-0.60%
<b>Diversifying Strategies</b>	<b>20.00%</b>	
Real Estate	10.0%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.0%	4.55%
<b>Expected Real Return</b>	<b>100.0%</b>	<b>5.00%</b>
<b>Long Term Inflation Assumption</b>		<b>2.30%</b>
<b>Expected Nominal Return for Portfolio</b>		<b>7.30%</b>

**NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**2022 Discount Rate**

Single discount rates of 5.70% for the non-hazardous system were used to measure the total OPEB liability as of June 30, 2022. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the ACFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in the Insurance Fund contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

**2021 Discount Rate**

Single discount rates of 5.20% for the non-hazardous system were used to measure the total OPEB liability as of June 30, 2021. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the ACFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in the System contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy,

## Todd County Water District Notes to Financial Statements

### NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

#### 2021 Discount Rate (Continued)

as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

#### 2022 Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Discount Rate

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

	<b>1% Decrease (4.70%)</b>	<b>Current Discount Rate (5.70%)</b>	<b>1% Increase (6.70%)</b>
District's proportionate share of the collective net OPEB liability	\$ 338,992	\$ 253,577	\$ 182,967

#### 2021 Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.20%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.20%) or 1-percentage-point higher (6.20%) than the current rate:

	<b>1% Decrease (4.20%)</b>	<b>Current Discount Rate (5.20%)</b>	<b>1% Increase (6.20%)</b>
District's proportionate share of the collective net OPEB liability	\$ 357,111	\$ 260,097	\$ 180,481

#### 2022 Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

## Todd County Water District Notes to Financial Statements

### NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

#### 2022 Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Healthcare Cost Trend Rates (Continued)

	<u>1% Decrease</u>	<u>Current Healthcare Rate</u>	<u>1% Increase</u>
District's proportionate share of the collective net OPEB liability	\$ 188,529	\$ 253,577	\$ 331,687

#### 2021 Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	<u>1% Decrease</u>	<u>Current Healthcare Rate</u>	<u>1% Increase</u>
District's proportionate share of the collective net OPEB liability	\$ 187,239	\$ 260,097	\$ 348,038

#### OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report.

### NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, unemployment insurance, errors and omissions, property and general liability coverage, the District participates in the Kentucky Association of Counties (KACo) insurance fund. This public entity risk pool operates as a common risk management and insurance program for political subdivisions in the State of Kentucky. The District, along with other participating entities, contributes annual premiums determined by KACo. The amount of the premium is based on actuarial evaluations, rating plans and other analyses of the amounts necessary for the payment of claims. If, in the opinion of KACo's Board, the assets of the Trust are insufficient to enable the Trust to discharge its legal liabilities and other obligations and to maintain required reserves, the Trust's Board may require certain participating members to contribute supplementary contributions. The District is not aware of any additional assessments payable to the Trust to cover claims. The District's claims are submitted to and paid by KACo.

**Todd County Water District  
Notes to Financial Statements**

**NOTE 10: RISK MANAGEMENT (CONTINUED)**

There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years.

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of the District's Contributions**  
**County Employee Retirement System**

		Schedule of the District's Proportionate Share of the Net Pension Liability - CERS							
<i>As of December 31,</i>		2022	2021	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability		<b>0.012851%</b>	0.013589%	0.012915%	0.012483%	0.014053%	0.013655%	0.012075%	0.011961%
District's proportionate share of the net pension liability	\$	<b>929,001</b>	\$ 866,405	\$ 990,568	\$ 877,935	\$ 855,871	\$ 799,269	\$ 594,539	\$ 514,262
District's covered payroll	\$	<b>352,395</b>	\$ 347,097	\$ 330,816	\$ 314,873	\$ 348,307	\$ 332,266	\$ 288,056	\$ 279,064
District's proportionate share of the net pension liability as a percentage of its covered payroll		<b>263.62%</b>	249.61%	299.43%	278.82%	245.72%	240.55%	206.40%	184.28%
Plan fiduciary net position as a percentage of the total pension liability		<b>52.42%</b>	57.33%	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%

**Note:** The amounts disclosed in the table above were determined as of June 30, which is the measurement date for the plan.

*The accompanying notes to required supplementary information are an integral part of this schedule.*

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of the District's Contributions**  
**County Employee Retirement System**

	Schedule of District's Contribution - CERS								
<i>For the Year Ended December 31,</i>	2022	2021	2020	2019	2018	2017	2016	2015	
Contractually required contribution	\$ 86,896	\$ 70,340	\$ 66,421	\$ 56,597	\$ 51,145	\$ 48,505	\$ 40,238	\$ 36,211	
Contributions in relation to the contractually required contribution	86,896	70,340	66,421	56,597	51,145	48,505	40,238	36,211	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
District's covered payroll (1)	\$ 376,054	\$ 347,506	\$ 344,640	\$ 318,325	\$ 334,252	\$ 341,178	\$ 303,889	\$ 286,477	
Contributions as a percentage of covered payroll	23.11%	20.24%	19.27%	17.78%	15.30%	14.22%	13.24%	12.64%	

(1) The amount presented was determined as of the calendar year end that accrued within the fiscal year.

**Note:** GASB codification P20 requires information for 10 years. However, until a full 10-year trend is compiled, the District is presenting information for only the years for which information is available.

*The accompanying notes to required supplementary information are an integral part of this schedule.*

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Schedule of the District's Proportionate Share of the Net Pension Liability and**  
**Schedule of the District's Contributions**  
**County Employee Retirement System**

**NOTES TO PENSION REQUIRED SUPPLEMENTARY INFORMATION**

**Changes of Benefit Terms**

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

2022: No changes in benefit terms.

2021: No changes in benefit terms.

2020: No changes in benefit terms.

2019: No changes in benefit terms.

2018: No changes in benefit terms.

2017: No changes in benefit terms.

2016: No changes in benefit terms.

2015: No changes in benefit terms.

**Changes of Assumptions**

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

2022: No changes in assumptions

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

2020: During the 2020 legislative session, Senate Bill 249 was enacted which changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. Additionally, House Bill 271 was

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Schedule of the District's Proportionate Share of the Net Pension Liability and**  
**Schedule of the District's Contributions**  
**County Employee Retirement System**

**NOTES TO PENSION REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**

**Changes of Assumptions (Continued)**

enacted which removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries. This did not have a material (or measurable) impact on the liability of the plans and therefore, no adjustment was made to the Total Pension Liability to reflect this legislation.

2019: There have been no changes in plan provisions since June 30, 2018. However, the Board of Trustees has adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The Total Pension liability as of June 30, 2019 is determined using these updated assumptions.

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

2017: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS. However, subsequent to the actual valuation date (June 30, 2016), but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total Pension Liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the non-hazardous system and the assumed rate of return is 6.25% for the non-hazardous system.

2016: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS. However, subsequent to the actual valuation date (June 30, 2016), but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total Pension Liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the non-hazardous system and the assumed rate of return is 6.25% for the non-hazardous system.

2015: No changes in assumptions

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Schedule of the District's Proportionate Share of the Collective**  
**Net OPEB Liability and Schedule of District's Contributions –**  
**County Employees Retirement System**

**Schedule of District's Proportionate Share of the Collective Net OPEB Liability - CERS**

<i>As of December 31,</i>	<b>2022</b>	2021	2020	2019	2018
District's proportion of the net OPEB liability	<b>0.012849%</b>	0.013586%	0.012911%	0.012480%	0.014053%
District's proportionate share of the net OPEB liability	\$ <b>253,577</b>	\$ 260,097	\$ 311,761	\$ 209,908	\$ 249,508
District's covered payroll	\$ <b>352,395</b>	\$ 347,097	\$ 330,816	\$ 314,873	\$ 348,307
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	<b>71.96%</b>	74.93%	94.24%	66.66%	71.63%
Plan fiduciary net position as a percentage of the total OPEB liability	<b>60.95%</b>	62.91%	51.67%	60.44%	57.62%

**Note:** The amounts disclosed in the table above were determined as of June 30, which is the measurement date for the plan.

*The accompanying notes to required supplementary information are an integral part of this schedule.*

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Schedule of the District's Proportionate Share of the Collective**  
**Net OPEB Liability and Schedule of District's Contributions –**  
**County Employees Retirement System**

**Schedule of District Contributions - CERS**

<i>For the year ended December 31,</i>	<b>2022</b>	2021	2020	2019	2018
Contractually required contribution	\$ <b>14,132</b>	\$ 18,326	\$ 16,381	\$ 15,938	\$ 16,593
Contributions in relation to the contractually required contribution	<b>14,132</b>	18,326	16,381	15,938	16,593
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll (1)	\$ <b>376,054</b>	\$ 347,506	\$ 344,640	\$ 318,325	\$ 334,252
Contributions as a percentage of covered payroll	<b>3.76%</b>	5.27%	4.75%	5.01%	4.96%

(1) The amount presented was determined as of the calendar year end that accrued within the fiscal year.

**Note:** GASB codification P20 requires information for 10 years. However, until a full 10-year trend is compiled, the District is presenting information for only the years for which information is available.

*The accompanying notes to required supplementary information are an integral part of this schedule.*

**Todd County Water District**  
**A Component Unit of Todd County, Kentucky**  
**Schedule of the District's Proportionate Share of the Collective**  
**Net OPEB Liability and Schedule of District's Contributions –**  
**County Employees Retirement System**

**NOTES TO OPEB REQUIRED SUPPLEMENTARY INFORMATION**

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

**Changes of Benefit Terms**

2022: No changes of benefit terms

2021: No changes of benefit terms

2020: No changes of benefit terms

2019: No changes of benefit terms.

2018: No changes of benefit terms (other than the blended discount rate used to calculate the total OPEB liability).

**Changes of Assumptions**

2022: The single discount rates used to calculate the total OPEB liability within the plan changed since the prior year. Additional information regarding the single discount rates is provided in Note 9 of the financial statements. During the 2022 legislative session, Senate Bill 209 was enacted which increased the insurance dollar contribution for members hired on or after July 1, 2003 by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA. The total OPEB liability as of June 30, 2022 is determined using these updated benefit provisions.

2021: The single discount rates used to calculate the total OPEB liability within the plan changed since the prior year. Additional information regarding the single discount rates is provided in Note 9 of the financial statements. During the 2021 legislative session, Senate Bill 169 was enacted which increased disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021 is determined using these updated benefit provisions.

**Todd County Water District  
A Component Unit of Todd County, Kentucky  
Schedule of the District's Proportionate Share of the Collective  
Net OPEB Liability and Schedule of District's Contributions –  
County Employees Retirement System**

**NOTES TO OPEB REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**

**Changes of Assumptions (Continued)**

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

2019: There have been no changes in plan provisions since June 30, 2018. However, the Board of Trustees has adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The Total OPEB liability as of June 30, 2019 is determined using these updated assumptions.

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

## Todd County Water District Summary Schedule of Prior Audit Findings



### Todd County Water District Summary Schedule of Prior Audit Findings Year-end December 31, 2021

#### 2021-001 Cash Deposits

*Condition:* At December 31, 2021, we noted the District's bank balance contained \$270,482 of cash deposits that were uncollateralized and uninsured. Kentucky Revised Statutes require the District's bank balance to be fully insured and collateralized.

*Recommendation:* We recommend current procedures be reviewed and that internal control procedures are implemented, including monitoring cash and investment balances to ensure that they are properly collateralized and insured.

*Current status:* The recommendation was not adopted. At December 31, 2022, the amount of the District's bank balance of cash deposits that were uncollateralized and uninsured was not considered to be material to the financial statements or material noncompliance, however, the internal controls over compliance of collateralization of bank deposits did not prevent or detect deposits that were uncollateralized or uninsured. CRI issued a management letter comment in the 2022 audit for the internal control weakness and noncompliance.



# REPORTS ON INTERNAL CONTROL AND COMPLIANCE MATTERS





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

Commissioners  
Todd County Water District  
Elkton, 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 Todd County Water District (the "District"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 18, 2023.

**Report on Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

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

### **Purpose of This Report**

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

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC  
Bowling Green, Kentucky  
May 18, 2023



# THOUGHT LEADERSHIP



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### CRI's CEO ACTION FOR DIVERSITY AND INCLUSION

Carr, Riggs & Ingram is committed to fostering an inclusive and diverse place for all employees to work in and engage. When our managing partner and chairman, Bill Carr, signed the CEO Action for Diversity & Inclusion™ pledge, he made a public commitment to building a productive, diverse, and inclusive workplace. [Learn more about CRI's commitment to Diversity and Inclusion.](#)