

Western Pulaski County Water District

Financial Statements

December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Western Pulaski County Water District
Somerset, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Western Pulaski County Water District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Western Pulaski County Water District as of December 31, 2021 and 2020 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Western Pulaski 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 Western Pulaski 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 Management's Discussion and Analysis on pages 4-6 and the Pension and OPEB Liability Schedules on pages 28-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information

because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2022 on our consideration of the Western Pulaski County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Western Pulaski County Water District's internal control over financial reporting and compliance.

Campbell, Myers & Rathledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

May 13, 2022

WESTERN PULASKI COUNTY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Western Pulaski County Water District, we offer readers of the District's financial statements this narrative overview of the financial activities of the District for the fiscal year ending December 31, 2021. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

For the year ended December 31, 2021 total operating and non-operating revenues (including capital contributions) were \$4,341,430 an increase of \$734,047 from prior year, primarily due to an increase in gallons sold and penalty collections as well as increase in grant revenue.

Total operating and non-operating expenses amounted to \$3,571,741 for the year ended December 31, 2021, an increase of \$166,487, attributable mostly to an increase salaries and benefits as well as actuarial pension and OPEB expense determined by Kentucky Retirement Systems.

Total assets and deferred outflows increased by \$2,064,509, and total liabilities and deferred inflows increased by \$1,294,820. These changes resulted in an increase in net position of \$769,689.

During 2021, the District completed Phase I and II of construction of KY Highway 914 Bypass Transmission Main Project and Fishing Creek Bridge Water Line Replacement.

Overview of the Financial Statements

This report consists of this Management's Discussion and Analysis report, the Independent Auditor's Report, Financial Statements and Supplementary Information. The financial statements include notes which explain in detail some of the information included in the financial statements.

Required Financial Statements

The financial statements of Western Pulaski County Water District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of Western Pulaski County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluation of the capital structure of Western Pulaski County Water District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of Western Pulaski County Water District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

WESTERN PULASKI COUNTY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Western Pulaski County Water District Summary of Net Position December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Total Current Assets	\$ 3,005,446	\$ 2,876,444
Total Restricted Assets	713,592	754,187
Net Capital Assets	<u>18,929,481</u>	<u>17,062,401</u>
Total Assets	<u>22,648,519</u>	<u>20,693,032</u>
 Deferred Outflows	 <u>409,716</u>	 <u>300,694</u>
Liabilities		
Total Current Liabilities	990,677	1,122,060
Total Long-term Liabilities	<u>11,180,227</u>	<u>9,708,242</u>
Total Liabilities	<u>12,170,904</u>	<u>10,830,302</u>
 Deferred Inflows	 <u>106,323</u>	 <u>152,105</u>
Net Position		
Invested in capital assets, net of related debt	8,938,817	8,037,831
Restricted for equipment replacement	496,809	468,766
Restricted for debt retirement	216,783	285,421
Unrestricted	<u>1,128,599</u>	<u>1,219,301</u>
Total Net Position	<u>\$ 10,781,008</u>	<u>\$ 10,011,319</u>

The largest portion (83%) of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding.

Restricted net position (7%) represents resources that are subject to external restrictions on how they may be used.

The balance (10%) of unrestricted net position may be used to meet the District's ongoing obligations to citizens, consumers and creditors.

**WESTERN PULASKI COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Summary of Changes in Net Position
For the Year Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Total operating revenues	\$ 3,542,581	\$ 3,359,390
Total operating expenses	<u>3,326,790</u>	<u>3,213,563</u>
Operating income (loss)	215,791	145,827
Total non-operating revenue (expense)	<u>(218,423)</u>	<u>(156,184)</u>
Income before capital contributions	(2,632)	(10,357)
Capital contributions	<u>772,321</u>	<u>212,486</u>
Increase (decrease) in net position	769,689	202,129
Net position, beginning of year	<u>10,011,319</u>	<u>9,809,190</u>
Net position, end of year	<u><u>\$ 10,781,008</u></u>	<u><u>\$ 10,011,319</u></u>

Net position increased by \$769,689 from the prior year.

Capital Asset Changes

At December 31, 2021, the District had invested \$18,929,481 in capital assets net of accumulated depreciation. This amount represents a net increase of \$1,867,080 from the previous year due to construction projects related to the KY Highway 914 Bypass Transmission Main Project and Fishing Creek Bridge Water Line Replacement.

Budgetary Highlights

The Western Pulaski County Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised. A budgetary comparison and analysis is presented on page 32 of this report.

Debt Administration

At December 31, 2021, the District had \$9,891,080 in outstanding debt, an increase of \$1,207,948 from the prior year's balance of \$8,683,132. The District incurred \$244,951 in interest expense associated with long term debt, no interest associated with construction was capitalized due to implementation of GASB 89 which requires that it be expensed.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Western Pulaski County Water District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the Western Pulaski County Water District at 2128 West Highway 80, Somerset, KY or by phone (606) 679-1569.

WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2021 and 2020

Assets	<u>2021</u>	<u>2020</u>
Current Assets		
Cash	\$ 2,544,129	\$ 2,201,556
Accounts receivable	384,751	425,764
Other receivable	-	149,855
Prepaid assets	7,798	8,933
Inventory	<u>68,768</u>	<u>90,336</u>
Total Current Assets	<u>3,005,446</u>	<u>2,876,444</u>
Non-current Assets		
Restricted Assets		
Cash - Depreciation fund	496,809	468,766
Cash - Bond and interest	<u>216,783</u>	<u>285,421</u>
Total Restricted Assets	<u>713,592</u>	<u>754,187</u>
Capital Assets		
Construction in progress	19,232	1,728,979
Land and land rights	494,938	494,938
Utility plant in service	28,775,126	24,756,154
Equipment	781,813	764,935
Accumulated depreciation	<u>(11,141,628)</u>	<u>(10,682,605)</u>
Net Capital Assets	<u>18,929,481</u>	<u>17,062,401</u>
Total Non-current Assets	<u>19,643,073</u>	<u>17,816,588</u>
Total Assets	<u>22,648,519</u>	<u>20,693,032</u>
Deferred Outflows		
Outflows relating to net pension and OPEB liabilities	<u>409,716</u>	<u>300,694</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Net Position, Concluded
December 31, 2021 and 2020

Liabilities		<u>2021</u>	<u>2020</u>
Current Liabilities			
Accounts payable	\$	257,333	\$ 149,018
Construction accounts payable		99,584	341,438
Customer deposits		277,898	264,881
Accrued liabilities		33,478	22,059
Accrued interest		22,885	97,664
Current maturities of long-term debt		299,499	247,000
Total Current Liabilities		<u>990,677</u>	<u>1,122,060</u>
Long-term Liabilities			
Accrued compensated absences		37,427	29,854
Long-term debt, less current maturities		9,591,581	8,436,132
Net OPEB liability		371,356	239,695
Net pension liability		<u>1,179,863</u>	<u>1,002,561</u>
Total Long-term Liabilities		<u>11,180,227</u>	<u>9,708,242</u>
Total Liabilities		<u>12,170,904</u>	<u>10,830,302</u>
Deferred Inflows			
Inflows relating to net pension and OPEB liabilities		<u>106,323</u>	<u>152,105</u>
Net Position			
Net Position			
Invested in capital assets, net of related debt		8,938,817	8,037,831
Restricted for equipment replacement		496,809	468,766
Restricted for debt retirement		216,783	285,421
Unrestricted		<u>1,128,599</u>	<u>1,219,301</u>
Total Net Position	\$	<u>10,781,008</u>	<u>\$ 10,011,319</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Residential water sales	\$ 3,226,298	\$ 3,147,019
Commercial water sales	195,858	154,114
Miscellaneous service revenues	<u>120,425</u>	<u>58,257</u>
Total operating revenues	<u>3,542,581</u>	<u>3,359,390</u>
Operating expenses:		
Water purchases	1,352,790	1,353,614
Utilities	103,651	93,618
Transmission and distribution expense	29,327	69,702
Meter readers	93,877	98,514
Office expense	76,578	70,545
Transportation expenses	38,660	25,507
Insurance	58,761	59,026
Directors' fees	12,200	11,550
Employees' salaries and wages	501,882	443,097
Employees' pensions and benefits	227,867	198,248
Actuarial pension and OPEB expense	154,159	117,594
Payroll taxes	42,387	37,895
Depreciation and amortization	509,373	501,394
PSC tax assessment	6,719	6,771
Professional fees	61,118	80,381
Bad debts	27,241	15,679
Miscellaneous	<u>30,200</u>	<u>30,428</u>
Total operating expenses	<u>3,326,790</u>	<u>3,213,563</u>
Operating income (loss)	<u>215,791</u>	<u>145,827</u>
Non-operating revenue (expenses):		
Rents from water property	16,624	16,351
Interest income	9,904	19,156
Interest expense on long-term debt	<u>(244,951)</u>	<u>(191,691)</u>
Total non-operating revenue (expenses)	<u>(218,423)</u>	<u>(156,184)</u>
Income/(loss) before capital contributions	<u>(2,632)</u>	<u>(10,357)</u>
Capital contributions		
Grant revenue	615,834	128,396
Tap fees	<u>156,487</u>	<u>84,090</u>
Total capital contributions	<u>772,321</u>	<u>212,486</u>
Increase (decrease) in net position	769,689	202,129
Net position:		
Beginning of year	<u>10,011,319</u>	<u>9,809,190</u>
End of year	<u>\$ 10,781,008</u>	<u>\$ 10,011,319</u>

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

WESTERN PULASKI COUNTY WATER DISTRICT
Statement of Cash Flows
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 3,596,611	\$ 3,329,649
Cash payments to suppliers for goods and services	(1,778,872)	(1,936,519)
Cash payments to employees for services	(734,376)	(648,530)
Net cash provided by (used) in operating activities	<u>1,083,363</u>	<u>744,600</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(380,466)	(238,500)
Proceeds from debt	1,588,414	1,123,959
Interest paid on long-term debt	(319,730)	(188,022)
Additions to capital assets	(2,376,453)	(2,050,504)
Increase (decrease) in construction payable	(241,854)	341,438
(Increase) decrease in other receivable	149,855	(149,855)
Grant revenue	615,834	128,396
Tap fees	156,487	84,090
Net cash provided by (used) in financing activities	<u>(807,913)</u>	<u>(948,998)</u>
Cash flows from investing activities:		
Rental income	16,624	16,351
Interest income	9,904	19,156
Net cash provided by (used) in investing activities	<u>26,528</u>	<u>35,507</u>
Net increase (decrease) in cash and cash equivalents	301,978	(168,891)
Cash and cash equivalents, beginning of year	2,955,743	3,124,634
Cash and cash equivalents, end of year	<u><u>\$ 3,257,721</u></u>	<u><u>\$ 2,955,743</u></u>
Reconciliation of operating income to		
net cash provided by operating activities:		
Operating income (loss)	\$ 215,791	\$ 145,827
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	509,373	501,394
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	41,013	(40,065)
(Increase) decrease in prepaid assets	1,135	376
(Increase) decrease in inventory	21,568	-
Increase (decrease) in actuarial pension/OPEB	154,159	117,594
Increase (decrease) in accounts payable	108,315	5,015
Increase (decrease) in customer deposits	13,017	10,324
Increase (decrease) in accrued liabilities	18,992	4,135
Net cash provided (used) by operating activities	<u><u>\$ 1,083,363</u></u>	<u><u>\$ 744,600</u></u>

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

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 1 – Description of Entity and Summary of Significant Accounting Policies

Organization

The Western Pulaski County Water District was organized under KRS 74.010 to provide water service to the residents of Western Pulaski County. The District's commissioners are appointed by the Pulaski County Judge-Executive.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses in Western Pulaski County.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital position, net of related debt, (ii) restricted, and (iii) unrestricted.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted - This component of net position consists of 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.
- Unrestricted net position - This component of net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Receivables

The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of December 31, 2021 or 2020. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation expense for the years ending December 31, 2021 and 2020 was \$509,373 and \$501,394 respectively.

The estimated useful lives of capital assets are as follows:

Transmission and Distribution	62.5 years
Distribution Reservoirs	45 years
Meter Installs and Services	40 years
Structures and Improvements	38 years
Pumping Equipment	20 years
Vehicles and Equipment	10 years

Cash and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value. The District has adopted no formal investment policy.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the Statement of Net Position.

Inventory

Inventory is valued at lower of cost or net realizable value, using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capital addition as inventory items are consumed.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Concluded

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Bond and Interest Redemption Fund

The ordinances authorizing the bond issues require monthly deposits of one-twelfth of the annual bond principal requirement and one-sixth of the semi-annual interest requirement. For the years ended December 31, 2021 and 2020 the District had complied with this requirement.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation Fund

The ordinances authorizing the various bond and loan issues of the District require annual transfers into a depreciation fund until the maximum requirement of \$535,740 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the years ended December 31, 2021 and 2020 the District had complied with this requirement.

Compensated Absences

Full time employees with 1-3 years of service receive 1 week of paid vacation, 4-6 years, 2 weeks of vacation, 7-10 years, 3 weeks of vacation and 11 years or more, 4 weeks. Unused vacation time may be carried over from one calendar year to another with a maximum of 4 weeks accrued. Upon retirement or termination, employees are compensated for any currently accrued vacation pay.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 2 – Capital Assets

Capital asset activity for the years ended December 31, 2021 and 2020 was as follows:

2021	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and rights	\$ 494,938	\$ -	\$ -	\$ 494,938
Construction in progress	1,728,979	3,845,045	(5,554,792)	19,232
<i>Total Non-Depreciable Capital Assets</i>	<u>2,223,917</u>	<u>3,845,045</u>	<u>(5,554,792)</u>	<u>514,170</u>
<i>Capital Assets being depreciated</i>				
Transmission and distribution lines	6,799,768	3,368,236	-	10,168,004
Line extensions	11,522,765	-	-	11,522,765
Meter installations	2,984,738	302,086	(50,350)	3,236,474
Services	568,482	-	-	568,482
Communication radios	9,106	-	-	9,106
Office equipment	223,590	-	-	223,590
Equipment and tools	80,308	16,878	-	97,186
Office building	255,572	-	-	255,572
Buildings	227,695	-	-	227,695
Distribution reservoir	1,262,945	-	-	1,262,945
Hydrants	20,147	-	-	20,147
Electric pumping equipment	1,114,042	399,000	-	1,513,042
Vehicles	451,931	-	-	451,931
<i>Total Depreciable Capital Assets</i>	<u>25,521,089</u>	<u>4,086,200</u>	<u>(50,350)</u>	<u>29,556,939</u>
Less: Accumulated depreciation	<u>(10,682,605)</u>	<u>(509,373)</u>	<u>50,350</u>	<u>(11,141,628)</u>
Total Net Capital Assets	<u>\$ 17,062,401</u>			<u>\$ 18,929,481</u>
2020	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and rights	\$ 494,938	\$ -	\$ -	\$ 494,938
Construction in progress	-	1,728,979	-	1,728,979
<i>Total Non-Depreciable Capital Assets</i>	<u>494,938</u>	<u>1,728,979</u>	<u>-</u>	<u>2,223,917</u>
<i>Capital Assets being depreciated</i>				
Transmission and distribution lines	6,799,768	-	-	6,799,768
Line extensions	11,522,765	-	-	11,522,765
Meter installations	2,756,770	288,768	(60,800)	2,984,738
Services	568,482	-	-	568,482
Communication radios	9,106	-	-	9,106
Office equipment	219,633	3,957	-	223,590
Equipment and tools	80,308	-	-	80,308
Office building	255,572	-	-	255,572
Buildings	227,695	-	-	227,695
Distribution reservoir	1,262,945	-	-	1,262,945
Hydrants	20,147	-	-	20,147
Electric pumping equipment	1,114,042	-	-	1,114,042
Vehicles	423,131	28,800	-	451,931
<i>Total Depreciable Capital Assets</i>	<u>25,260,364</u>	<u>321,525</u>	<u>(60,800)</u>	<u>25,521,089</u>
Less: Accumulated depreciation	<u>(10,242,011)</u>	<u>(501,394)</u>	<u>60,800</u>	<u>(10,682,605)</u>
Total Net Capital Assets	<u>\$ 15,513,291</u>			<u>\$ 17,062,401</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 3 – Long-Term Debt

Capitalization of Interest:

In accordance with GASB 89 *Accounting for Interest Costs Incurred Before the End of a Construction Period*, effective for periods beginning after December 15, 2020, interest costs incurred during construction are no longer capitalized. 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. This accounting change has been implemented prospectively and therefore the change has had no effect on the beginning net position of the District. Interest capitalized for the years ended December 31, 2021 and 2020 was \$0 and \$25,555 respectively.

Long-term debt consists of the following bonds payable at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Series 2002A Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$900,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	\$ 649,000	\$ 688,000
Series 2002B Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$550,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	394,000	418,000
Series 2010 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$911,000; due in annual installments on January 1, through 2049; interest rate of 2.25% due semi-annually on January 1 and July 1.	734,000	770,500
Series 2012E Water Revenue Bonds issued through Kentucky Rural Water Finance Corporation in the amount of \$2,080,000; (to refund Series 2001A and 2001B revenue bonds) due in annual installments on July 1, through 2035; interest rate of 2.2 - 3.7% due semi-annually on January 1 and July 1.	1,040,000	1,175,000
Series 2013 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$1,400,000; due in annual installments on January 1, through 2053; interest rate of 2.25% due semi-annually on January 1 and July 1.	1,222,500	1,276,000
Series 2018 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$2,225,000; due in annual installments on January 1, through 2057; interest rate of 2.50% due semi-annually on January 1 and July 1.	<u>2,115,000</u>	<u>2,189,000</u>
Total Bonds Payable:	<u>\$ 6,154,500</u>	<u>\$ 6,516,500</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 3 – Long-Term Debt, Continued

Long-term debt consists of the following notes not yet finalized at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
KIA B20-004 Loan issued through Kentucky Infrastructure Authority for Water System Improvements project not to exceed \$1,146,000; interest of 1.50% due monthly succeeding date of initial draw of funds. A loan servicing fee of .20% of the annual outstanding balance shall be payable as part of each interest payment. Principal payments are due June 1 and December 1 beginning December 2021.	839,232	-
KIA F16-003 Loan issued through Kentucky Infrastructure Authority of the Federally Assisted Drinking Water Revolving Loan Fund for Water System Improvements project not to exceed \$3,304,000; interest of 1.75% due monthly succeeding date of initial draw of funds. A loan servicing fee of .25% of the annual outstanding balance shall be payable as part of each interest payment. Principal payments due June 1 and December 1 upon final draw of loan funds.	\$ 2,897,348	\$ 2,166,632
Total Notes Payable:	<u>\$ 3,736,580</u>	<u>\$ 2,166,632</u>

Principal and interest maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 299,499	\$ 62,621	\$ 362,120
2023	421,209	240,291	661,500
2024	431,464	229,099	660,563
2025	449,267	217,573	666,840
2026	339,117	205,557	544,674
2027-2031	1,823,071	895,336	2,718,407
2032-2036	2,010,985	648,293	2,659,278
2037-2041	2,000,468	393,454	2,393,922
2042-2046	786,000	204,964	990,964
2047-2051	720,000	115,957	835,957
2052-2056	522,000	39,858	561,858
2057	88,000	1,100	89,100
	<u>\$ 9,891,080</u>	<u>\$ 3,254,103</u>	<u>\$13,145,183</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 3 – Long-Term Debt, Concluded

Long-term debt activity for the years ended December 31, 2021 and 2020 was as follows:

Debt	Balance January 1, 2021	Additions	Debt Payments and Reductions	Balance December 31, 2021	Amount Due within One Year
RD 2002A	\$ 688,000	\$ -	\$ (39,000)	\$ 649,000	\$ -
RD 2002B	418,000	-	(24,000)	394,000	-
RD 2010	770,500	-	(36,500)	734,000	-
KRWFC 2012E	1,175,000	-	(135,000)	1,040,000	(140,000)
RD 2013	1,276,000	-	(53,500)	1,222,500	-
KIA F16-003	2,166,632	730,716	-	2,897,348	(122,150)
RD 2018	2,189,000	-	(74,000)	2,115,000	-
KIA B20-004	-	857,698	(18,466)	839,232	(37,349)
	<u>\$ 8,683,132</u>	<u>\$ 1,588,414</u>	<u>\$ (380,466)</u>	<u>\$ 9,891,080</u>	<u>\$ (299,499)</u>

Debt	Balance January 1, 2020	Additions	Debt Payments and Reductions	Balance December 31, 2020	Amount Due within One Year
RD 2002A	\$ 706,000	\$ -	\$ (18,000)	\$ 688,000	\$ (19,000)
RD 2002B	429,000	-	(11,000)	418,000	(12,000)
RD 2010	788,000	-	(17,500)	770,500	(18,000)
KRWFC 2012E	1,305,000	-	(130,000)	1,175,000	(135,000)
RD 2013	1,302,000	-	(26,000)	1,276,000	(26,500)
KIA F16-003	1,042,673	1,123,959	-	2,166,632	-
RD 2018	2,225,000	-	(36,000)	2,189,000	(36,500)
	<u>\$ 7,797,673</u>	<u>\$ 1,123,959</u>	<u>\$ (238,500)</u>	<u>\$ 8,683,132</u>	<u>\$ (247,000)</u>

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The District performed calculations of excess investment earnings on various bonds and at December 31, 2021 and does not expect to incur a liability.

Note 4 – Commitments

The Water System Improvements and Replacements Project began in 2017. During 2021 the District completed Phase I and II of the project related to the KY Highway 914 Bypass Transmission Main and Fishing Creek Bridge Water Line Replacement. The Kentucky Infrastructure Authority granted approval of loan F16-003 funds not to exceed \$3,304,000 and loan B20-004 funds not to exceed \$1,146,000. As of December 31, 2021 the District had drawn \$3,755,046 of available KIA loan funds. The USDA Rural Development approved grant funds in the amount of \$854,000. As of December 31, 2021, the District had expended all of the grant funds available for the project.

Note 5 – Subsequent Events

Management has evaluated subsequent events through May 13, 2022, the date which the financial statements were available to be issued.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 6 – Cash and Investments

The carrying amount of the District's cash deposits was \$3,257,721 and \$2,955,743 for the years ending December 31, 2021 and 2020 respectively and the bank balance was \$3,289,996 and \$2,994,457. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. All of the District's deposits were either insured by FDIC or by collateral pledged by the financial institution. The District does not have a formal investment policy.

Note 7– Pension Plan

Governments providing defined benefit pensions are required to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The District participates in the County Employee Retirement System (CERS), a cost-sharing multiple-employer retirement system administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). CERS is a defined benefit plan created by the Kentucky General Assembly. The Plan covers substantially all full-time employees. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the State legislature. Benefits fully vest upon reaching five years of service and are established by the state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 7 – Pension Plan, Continued

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.ky.gov

Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 75% of the decedent's average rate of pay and any dependent child will receive 50% of the decedent's average rate of pay up to 75% for three dependent children. There have been no assumption changes since June 30, 2019. Senate Bill 249 passed during the 2020 Legislative Session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Employer contribution rates for CERS are determined by the KRS Board without further legislative review. The methods used to determine the employer contribution rates for KRS are specified in Kentucky Revised Statutes 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly. House Bill 362 was enacted in the 2018 legislative sessions that limits the annual increase in the CERS employer contribution over the prior fiscal year to 12% per year for the period July 1, 2018 to June 30, 2028, or until the full actuarial required contribution is met.

At December 31, 2021, the District reported a liability for its proportionate share of the net pension liability for CERS.

District's proportionate share of the CERS net pension liability	\$ 1,179,863
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The net pension liability for each plan was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2020, the District's proportion was .015383%.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 7 – Pension Plan, Continued

For the year ended December 31, 2021, the District recognized pension expense of \$221,488. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience in the measurement of the total pension liability	\$ 17,644	\$ -
Net difference between projected and actual earnings on pension plan investments	30,670	21,619
Changes in assumptions	27,629	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	40,814	5,823
District contributions subsequent to the measurement date	109,935	-
	<u>\$ 226,692</u>	<u>\$ 27,442</u>

The 2021 CERS employer contributions are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows related to pensions will be amortized and recognized in pension expense as follows:

<u>Year Ended</u>	Net Deferred Outflows (Inflows)
12/31/2022	\$ 59,883
12/31/2023	17,575
12/31/2024	11,857
12/31/2025	-
12/31/2026	-
	<u>\$ 89,315</u>

Actuarial assumptions—Prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30:

Inflation	2.30%
Projected salary increases	3.30% to 11.55%
Investment rate of return, net of investment expense and inflation	6.25%

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 7 – Pension Plan, Continued

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Long term rate of return: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2014 through 2018, is outlined in a report dated April 18, 2019. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The following table presents the allocation and long-term expected return on plan assets:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	<u>100.0%</u>	

Discount rate: The discount rate used to measure the total pension liability was 6.25%.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 7 – Pension Plan, Concluded

Projected cash flows: The projection of cash flows used to determine the discount rate assumed that plan employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year closed amortization period of the unfunded actuarial accrued liability.

Municipal bond rate: The discount rate determination does not use a municipal bond rate.

Periods of projected benefit payments: The long-term expected rate of return on pension plan investments was applied to all periods of the projected benefits payments to determine the total pension liability for each system.

The following table presents the net pension liability of the District, calculated using the discount rates selected by CERS, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$1,455,028	\$1,179,863	\$952,016

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CERS. The effect of the net pension liability on the District's net position has been determined on the same basis used by Kentucky Retirement Systems.

Non-hazardous plan members are required to contribute 5% of their annual creditable compensation. The Western Pulaski County Water District is required to contribute at actuarially determined rates. The pension contribution rate was 19.30% for the year ended June 30, 2021 and 21.70% for the year ended June 30, 2022 for non-hazardous employees' annual creditable compensation. The OPEB contribution rate was 4.76% for the years ended June 30, 2021 and 5.78% for the year ended June 30, 2022. The contribution requirements of the plan members of the Western Pulaski County Water District, are established and may be amended by the Board of Trustees of KRS.

For the year ended December 31, 2021, the District's total covered payroll was approximately \$534,000. The District contributed approximately \$110,000 for pension and \$21,000 for OPEB benefits and employees contributed approximately \$27,000 for pension and OPEB benefits.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 8 – Other Postemployment Benefits (OPEB)

Kentucky Retirement Systems provides participants their proportionate share of the OPEB unfunded liability calculated by Gabriel, Roeder, Smith & Co (GRS) to be used in financial reports. KRS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.ky.gov.

Plan Description: The Kentucky Retirement Systems' Insurance Fund is a cost sharing multiple-employer defined benefit Other Post-Employment Benefit plan for members that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state departments, board, agency, county, District, school board, and any additional eligible local agencies electing to participate.

Benefits Provided: The plan was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. OPEB may be extended to beneficiaries of plan members under certain circumstances. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 GASB No. 75 actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

Contributions: The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. As a result of House Bill 290, medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 8 – Other Postemployment Benefits (OPEB), Continued

Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. See chart for current values for Dollar Contribution. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Dollar Contribution for Fiscal Year 2020</u>		<u>Portion Paid by Insurance Fund</u>	
For Member participation date on or after July 1, 2003		As of June 30, 2020	
<u>System</u>	(in whole dollars)	<u>Years of service</u>	<u>% Paid by Insurance Fund</u>
KERS Non-hazardous	\$ 13.58	20+ years	100.00%
KERS Hazardous	\$ 20.37	15-19 years	75.00%
CERS Non-hazardous	\$ 13.58	10-14 years	50.00%
CERS Hazardous	\$ 20.37	4-9 years	25.00%
SPRS	\$ 20.37	Less than 4 years	0.00%

Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate and the actuarial assumptions and methods adopted by the Board of Trustees. The fully insured premiums KRS pays for the CERS health insurance plans 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 it to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system.

However, the cost associated with the implicit subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The distributions from the retiree health insurance trust pay the employers' portion of the blended premiums, not the employers' portion of the underlying retiree claims costs. As a result, the benefit payments and contribution amounts need to include an adjustment related to the implicit subsidy. Participating employers adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes.

OPEB Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available in the separately issued KRS financial statements.

At December 31, 2021, the District reported a liability of \$371,356 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. At June 30, 2020, the District's proportionate share was .015379%.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 8 – Other Postemployment Benefits (OPEB), Continued

As a result of its requirement to contribute to the Plan, the District recognized OPEB expense of \$70,090 for the year ended December 31, 2021 and reported deferred inflows and deferred outflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience in the measurement of the OPEB liability	\$ 62,046	\$ 62,094
Net difference between projected and actual investment earnings on OPEB investments	19,921	7,578
Changes in assumptions and other inputs	41,206	393
Changes in proportion and differences between employer contributions and proportionate share of contributions	23,253	8,816
District contributions subsequent to the measurement date of the OPEB liability	36,598	-
	<u>\$ 183,024</u>	<u>\$ 78,881</u>

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

Year Ended	Net Deferred Outflows/(Inflows)
12/31/2022	\$ 27,040
12/31/2023	20,038
12/31/2024	20,842
12/31/2025	(375)
12/31/2026	-
Total	<u>\$ 67,545</u>

Actuarial Assumptions: The total OPEB liability, net OPEB liability and sensitivity information are based on an actuarial valuation performed as of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2020 using generally accepted actuarial principles. The KRS Board of Trustees adopted the following updated actuarial assumptions used in performing the actuarial valuation as of June 30, 2019:

Assumed investment return	6.25%
Inflation factor	2.30%
Salary increases	3.30% to 11.55%

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 8 – Other Postemployment Benefits (OPEB), Continued

Mortality rates were based on the RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).

The long-term expected rate of return was determined by using a building-block method in which the 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 following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	

Discount Rate: The single discount rate of 5.34% for Non-hazardous employees was used to measure the total OPEB liability as of June 30, 2020. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 2.45% as reported in Fidelity Index's "20 Year Municipal GO AA Index" as of June 30, 2020. The following presents the District's proportionate share of the net OPEB liability if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS-Discount Rate	4.34%	5.34%	6.34%
District's proportionate share of net OPEB liability	\$ 287,522	\$ 371,356	\$ 473,090

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

Note 8 – Other Postemployment Benefits (OPEB), Concluded

Healthcare Trend Rate: The initial trend rate for participants under 65 years of age starts at 7.00% at January 1, 2020 and gradually decreases to an ultimate trend rate of 4.05% over a period of 12 years. For those over 65 years of age the trend rate starts at 5.0% at January 1, 2020 and gradually decreases to an ultimate trend rate of 4.05% over a period of 10 years. The following table presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Healthcare Cost Current Trend Rate</u>	<u>1% Increase</u>
Healthcare Cost Trent Rate	4.34%	5.34%	6.34%
District's proportionate share of net OPEB liability	\$ 477,084	\$ 371,356	\$ 284,519

Note 9 – Deferred Inflows/Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2021 the District reported deferred outflows related to the pension and OPEB liabilities in the amount of \$409,716.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At December 31, 2021 the District reported deferred inflows related to the pension and OPEB liabilities in the amount of \$106,323.

Required Supplementary Information

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees Retirement System
Last Ten Fiscal Years as of December 31st **

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's portion of the net pension liability	0.015383%	0.014255%	0.01351%	0.01441%	0.01207%	0.01152%	0.01198%
District's proportionate share of net pension liability	\$ 1,179,863	\$ 1,179,863	\$ 1,002,561	\$ 843,637	\$ 594,353	\$ 495,402	\$ 388,639
District's covered-employee payroll	\$ 534,000	\$ 440,000	\$ 373,000	\$ 337,000	\$ 345,000	\$ 340,000	\$ 260,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	220.95%	268.15%	268.78%	250.34%	172.28%	145.71%	149.48%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%

** Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of the District's Pension Contributions
County Employees Retirement System
Last Ten Fiscal Years as of December 31st **

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 109,935	\$ 85,044	\$ 65,969	\$ 52,091	\$ 65,000	\$ 62,000	\$ 46,000
Contributions in relation to the contractually required contribution	<u>(109,935)</u>	<u>(85,044)</u>	<u>(65,969)</u>	<u>(52,091)</u>	<u>(65,000)</u>	<u>(62,000)</u>	<u>(46,000)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 534,000	\$ 440,000	\$ 373,000	\$ 337,000	\$ 345,000	\$ 340,000	\$ 260,000
Contributions as a percentage of covered- employee payroll	20.59%	19.33%	17.69%	15.46%	18.84%	18.24%	17.69%

**Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employees Retirement System
Last Ten Fiscal Years as of December 31st **

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
District's portion of the net OPEB liability	0.153790%	0.014251%	0.01351%	0.01441%
District's proportionate share of net OPEB liability	\$ 371,356	\$ 371,356	\$ 239,695	\$ 289,751
District's covered-employee payroll	\$ 534,000	\$ 440,000	\$ 373,000	\$ 337,000
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	69.54%	84.40%	64.26%	85.98%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.40%

** Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of the District's OPEB Contributions
County Employees Retirement System
Last Ten Fiscal Years as of December 31st **

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 27,484	\$ 21,261	\$ 19,016	\$ 17,364
Contributions in relation to the contractually required contribution	<u>(27,484)</u>	<u>(21,261)</u>	<u>(19,016)</u>	<u>(17,364)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 534,000	\$ 440,000	\$ 373,000	\$ 337,000
Contributions as a percentage of covered- employee payroll	5.15%	4.83%	5.10%	5.15%

**Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

Supplementary Information

WESTERN PULASKI COUNTY WATER DISTRICT
Statement of Revenues, Expenses and
Change in Net Position – Budget and Actual
For the Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water sales	\$ 3,498,000	\$ 3,422,156	\$ (75,844)
Miscellaneous service revenues	<u>96,000</u>	<u>120,425</u>	<u>24,425</u>
Total operating revenues	<u>3,594,000</u>	<u>3,542,581</u>	<u>(51,419)</u>
Operating expenses:			
Salaries and wages	499,400	514,082	(14,682)
Purchased water	1,260,000	1,352,790	(92,790)
Materials and supplies	371,800	105,905	265,895
Contractual services	183,300	154,995	28,305
Transportation	33,100	38,660	(5,560)
Insurance	157,520	58,761	98,759
Other expenses	277,732	592,224	(314,492)
Depreciation	<u>446,530</u>	<u>509,373</u>	<u>(62,843)</u>
Total operating expenses	<u>3,229,382</u>	<u>3,326,790</u>	<u>(97,408)</u>
Operating income	<u>364,618</u>	<u>215,791</u>	<u>(148,827)</u>
Non-operating revenue (expenses):			
Rents from water property	38,400	16,624	(21,776)
Interest income and other	-	9,904	9,904
Interest expense on long-term debt	<u>(187,559)</u>	<u>(244,951)</u>	<u>(57,392)</u>
Total non-operating revenue (expenses)	<u>(149,159)</u>	<u>(218,423)</u>	<u>(69,264)</u>
Income before capital contributions	<u>215,459</u>	<u>(2,632)</u>	<u>(218,091)</u>
Capital contributions			
Grant proceeds	50,000	615,834	565,834
Customer contributions	<u>50,000</u>	<u>156,487</u>	<u>106,487</u>
Total capital contributions	<u>100,000</u>	<u>772,321</u>	<u>672,321</u>
Increase/(Decrease) in net position	315,459	769,689	454,230
Net position:			
Beginning of year	<u>10,011,319</u>	<u>10,011,319</u>	<u>-</u>
End of year	<u>\$10,326,778</u>	<u>\$10,781,008</u>	<u>\$ 454,230</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<i>Drinking Water State Revolving Fund Cluster-Cluster</i>				
United States Environmental Protection Agency				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	-	-	\$ 730,716
Total Capitalization Grants for Drinking Water State Revolving Funds				<u>730,716</u>
Total United States Environmental Protection Agency				<u>730,716</u>
<i>Total Drinking Water State Revolving Fund Cluster-Cluster</i>				<u>730,716</u>
<i>Other Programs</i>				
United States Department of Agriculture				
Water and Waste Disposal Systems for Rural Communities	10.760	-	-	<u>615,834</u>
Total Water and Waste Disposal Systems for Rural Communities				<u>615,834</u>
Total United States Department of Agriculture				<u>615,834</u>
<i>Total Other Programs</i>				<u>615,834</u>
<i>Total Expenditures of Federal Awards</i>				<u><u>\$ 1,346,550</u></u>

See accompanying notes to schedule of expenditures of federal awards.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Western Pulaski County Water District under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Cooperative it is not intended to and does not present the financial position, results of operations or cash flows of Western Pulaski County Water District.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where in certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Western Pulaski County Water District has elected not to use the 10% de minimis cost rate as allowed under the Uniform Guidance.

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with

GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☒ Yes ☐ No

Dollar threshold used to distinguish Between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

Identification of Major Programs:

Federal Grantor/Program Title

CFDA Number

Drinking Water State Revolving Fund Cluster-Cluster

United States Environmental Protection Agency
 Capitalization Grants for Drinking Water State
 Revolving Funds

66.468

Other Programs

United States Department of Agriculture
 Water and Waste Disposal Systems for Rural Communities

10.760

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule Findings and Questioned Costs, Concluded
For the Year Ended December 31, 2021

II. FINANCIAL STATEMENT FINDINGS

None reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference Number 2021-001

Drinking Water State Revolving Fund Cluster-United States Environmental Protection Agency-Capitalization Grants for Drinking Water State Revolving Funds - CFDA 66.468

Criteria: In accordance with Title 2 U.S. *Code of Federal Regulations* Part 200.305, of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury and the disbursement of funds to the contractor.

Condition: Final payment to the contractor was not made timely.

Cause: The District lacked proper controls over disbursements to prevent untimely disbursement of federal funds.

Effect: The District had excess federal funds on hand that were not timely disbursed to the contractor.

Context: Due to size of the sample, all federal fund disbursements were selected for audit. The test found one transaction that was not in compliance with the above criteria.

Recommendation: The District should ensure that the internal controls over federal funds be maintained to ensure timely disbursements of funds.

Response: The District paid the invoice as soon as it was determined to be outstanding and has implemented controls to ensure timely disbursement of funds in the future.

IV. NONCOMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

None reported.

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of Prior Audit Findings
For the Year Ended December 31, 2021

No prior year audit findings.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

Western Pulaski County Water District
Somerset, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Western Pulaski County Water District's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Western Pulaski County Water District's major federal programs for the year ended December 31, 2021. Western Pulaski County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Western Pulaski County Water District complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Western Pulaski County Water District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Western Pulaski County Water's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Western Pulaski County Water District's internal control over compliance. Accordingly, no such opinion is expressed.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Western Pulaski County Water District's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Western Pulaski County Water District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on Western Pulaski County Water District's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Western Pulaski County Water District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Campbell, Myers and Ratledge, PLLC

Glasgow, Kentucky

May 13, 2022

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

Board of Directors
Western Pulaski County Water District
Somerset, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Pulaski County Water District, as of and for the years ended December 31, 2021 and 2020 and the related notes to the financial statements and have issued our report thereon dated May 13, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

May 13, 2022

