

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
For Years Ending December 31, 2022 and 2021

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2022 and 2021

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BOONE COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2022 and 2021

Mike Giordano, Chair

Jeffery Eger, Vice-Chair

James Daugherty, Treasurer

Tim Alexander, Jr., Secretary

Charlie Cain

Of Counsel

David Koenig, Esq.

INDEPENDENT AUDITOR'S REPORT

**To the Board of Commissioners
Boone County Water District
Burlington, Kentucky**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Boone County Water District (District), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Boone County Water District's basic financial statements as listed in the table of contents.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Boone 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Boone 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 Boone County Water District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2023, on our consideration of the Boone 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Boone County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boone County Water District's internal control over financial reporting and compliance.

Chamberlin Owen & Co., Inc.

Chamberlin Owen, & Co., Inc.

Erlanger, Kentucky

May 18, 2023

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2022. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The District saw an increase in net position during 2022. This was primarily due to capital contributions of transmission lines donated to the District by developers, the Kentucky Department of Transportation and the Boone County Fiscal Court. There was also a sale of a parcel of property to the City of Florence that contributed to this increase.

USING THIS ANNUAL REPORT

The financial statements presented herein include all the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2022, 2021, and 2020.

Table 1 - Net Position

	2022	2021	2020
Current assets	\$ 21,866,094	\$ 21,170,546	\$ 19,944,946
Restricted assets	376	354	354
Non Current/ Capital assets, net	103,595,653	101,141,410	98,431,946
Deferred outflows of resources	694,896	1,095,868	1,299,290
Total Assets and Deferred Outflows of Resources	<u>126,157,019</u>	<u>123,408,178</u>	<u>119,676,536</u>
Current liabilities	1,884,245	1,835,952	1,919,578
Liabilities payable from restricted assets	87,069	185,060	180,363
Long-term liabilities	6,180,367	7,700,937	8,718,595
Deferred inflows of resources	661,630	1,200,757	328,446
Total Liabilities and Deferred Inflows of Resources	<u>8,813,311</u>	<u>10,922,706</u>	<u>11,146,982</u>
Net Position:			
Net investment in capital assets	102,134,829	97,962,712	95,105,227
Restricted	(3,154)	(31,751)	(31,987)
Unrestricted	15,212,033	14,554,511	13,456,314
Total Net Position	<u>\$ 117,343,708</u>	<u>\$ 112,485,472</u>	<u>\$ 108,529,554</u>

Net Position (i.e., total assets net of total liabilities) is divided into three components: 1) net investment in capital assets, 2) restricted and 3) unrestricted.

The largest portion of the District's net position (87.04%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

The second category, restricted, represents resources that are subject to restrictions on how they are to be expended.

The third category, unrestricted, may be used by the District to meet current obligations to creditors.

The District's net position for 2022 increased 4.32% or \$4,858,236 as compared to a 3.6 % or \$3,955,918 increase in the previous year.

SUMMARY OF CHANGES IN NET POSITION

Operating Revenues

The District's operating revenues increased by \$106,524 or 0.62%. Water sales increased slightly in conjunction with an overall increase in the number of bills that were sent out. There was also a 31.8% increase in forfeited discounts from users who did not pay their bills timely and received a penalty.

Operating Expenses

The District's operating expenses increased \$946,552 or 5.30%. These increases are a reflection of inflation in the general economy as a whole in 2022.

- Water Purchased – There was an increase in water costs in the amount of \$409,196 or 3.72% over 2021. This was due to Boone-Florence Water Commission passing on increased rates for water purchased.
- Operations & Maintenance Expenses – Operation and maintenance expenses increased by \$430,524 primarily due to an increase in operating supplies, operating labor, and employee benefits. A significant portion of this increase was due to the increase in labor costs. The District approved a mid-year raise because they were having difficulty attracting new employees and retaining old employees. The District also experienced increases in the cost of operating supplies due to the inflationary prices that were being charged by vendors. The District also expended more than anticipated during the calendar year due to inability to timely obtain materials due to supply chain issues.
- Depreciation – Depreciation expense for 2022 and 2021 was \$3,096,260 and \$2,989,428, respectively. This increase of \$106,832 or 3.57% correlates to significant additions in fixed assets in 2022 and is consistent with the increase seen in depreciation expense in recent years.

Net Effect On Change Of Pension and OPEB Expense

The District is required to report its proportionate share of the estimated unfunded pension and OPEB liability associated with its participation in the County Employee Retirement System in its financial statements. The amount that appears as a non-operating income, \$10,267, is the result of recognizing the change in the liability and the related deferred inflows and outflows less any amortization of those inflows and outflows between June 30, 2021 and June 30, 2022. This benefit compares favorably to the benefit expense of \$211,028 from the amount reported in 2021. See Note 7 to the financial statements for a more complete explanation of this unfunded liability and the related deferred inflows and outflows.

Capital Contributions

Capital contributions were \$6,813,822, increased by \$1,829,206 during 2022. This is primarily due to the \$1,603,814 forgiveness of the Boone County Fiscal Court Lease by the Fiscal Court.

Interest and Investment Income

Interest and investment income decreased (\$572,316) in 2022. During 2015 the District moved cash reserves from low interest rate certificates of deposit to an investment portfolio with a higher rate of return. This portfolio consists of US Treasuries, US Agency debt, Municipal Bonds, Mutual Funds, and Money Market Funds. These investments, unlike certificates of deposit, carry with them the risk of loss. The amount of this unrealized loss, (\$688,087) and (\$123,415) at December 31, 2022 and 2021, respectively, has been included in investment income. Since the District plans to hold these investments to maturity, the management believes that these losses will never be incurred. The District is addressing deficiencies in its investment guidance. See the table below for a breakdown of investment income for 2022 and 2021.

	<u>2022</u>	<u>2021</u>	<u>Increase/Decrease</u>
Interest and dividends	\$ 159,259	\$ 67,766	\$ 91,493
Realized gains on the sale of investments	(96,861)	20,950	(117,811)
Accrued income	19,770	1,716	18,054
Investment fees	<u>(18,965)</u>	<u>(19,585)</u>	<u>620</u>
Investment income	63,203	70,847	(7,644)
Unrealized loss/gain on investment	<u>(688,087)</u>	<u>(123,415)</u>	<u>(564,672)</u>
Reported interest and investment loss/income	<u>\$ (624,884)</u>	<u>\$ (52,568)</u>	<u>\$ (572,316)</u>

Table 2 provides a summary of the change in the District's net position at December 31, 2022, 2021, and 2020.

Table 2 – Changes in Net Position

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues:			
Water sales	\$ 17,015,145	\$ 16,959,686	\$ 15,853,283
Forfeited discounts	211,647	160,586	63,761
Other water revenues	<u>73,683</u>	<u>73,679</u>	<u>102,505</u>
Total operating revenues	<u>17,300,475</u>	<u>17,193,951</u>	<u>16,019,549</u>
Operating expenses:			
Water purchased	11,422,089	11,012,893	10,723,783
Operation and maintenance expense	4,273,510	3,842,986	3,767,114
Depreciation	<u>3,096,260</u>	<u>2,989,428</u>	<u>2,868,264</u>
Total operating expenses	<u>18,791,859</u>	<u>17,845,307</u>	<u>17,359,161</u>
Net operating income	<u>(1,491,384)</u>	<u>(651,356)</u>	<u>(1,339,612)</u>
Non-operating income (expenses)			
Interest income	36,186	10,845	37,745
Investment income (loss)	(661,070)	(63,413)	306,688
Net effect on change in pension expense	10,267	(211,028)	(542,620)
Interest on long-term debt	(48,293)	(113,746)	(120,617)
Gain on disposal of assets	198,708	-	-
Amortization of debt expenses	-	-	<u>(4,767)</u>
Net non-operating expenses	<u>(464,202)</u>	<u>(377,342)</u>	<u>(323,571)</u>
(Loss) income before capital contributions	(1,955,586)	(1,028,698)	(1,663,183)
Capital grants and contributions	<u>6,813,822</u>	<u>4,984,616</u>	<u>6,502,035</u>
Change in net position	4,858,236	3,955,918	4,838,852
Net position, January 1	<u>112,485,472</u>	<u>108,529,554</u>	<u>103,690,702</u>
Net position, December 31	<u>\$ 117,343,708</u>	<u>\$ 112,485,472</u>	<u>\$ 108,529,554</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2022, the District had \$103,595,653 invested in capital assets including construction in progress, land, buildings, water treatment, transmission and distribution system, equipment, and vehicles, as reflected in the following schedule. This represents a net increase (additions less retirements and depreciation) of \$2,454,243. This increase is mainly due to the fact that District expenditures for new assets of \$5,576,795 exceeded depreciation expense of \$3,096,260.

Table 3 Summarizes the District's capital assets at the end of 2022 as compared to 2021 and 2020.

Table 3 – Capital Assets at Year End

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Land	\$ 256,633	\$ 256,633	\$ 256,633
Transmission and distribution system	148,034,401	142,744,203	137,822,407
Automated meter system	1,663,110	1,663,110	1,663,110
Buildings and improvements	1,985,351	1,978,045	1,977,221
Machinery and equipment	1,503,074	1,435,404	1,403,286
Furniture and fixtures	230,798	175,143	163,409
Rate Study	220,578	220,578	220,578
Construction in progress	1,151,141	1,051,119	318,699
Subtotal	<u>155,045,086</u>	<u>149,524,235</u>	<u>143,825,343</u>
Accumulated depreciation	<u>(51,449,433)</u>	<u>(48,382,825)</u>	<u>(45,393,397)</u>
Capital Assets, net	<u>\$ 103,595,653</u>	<u>\$ 101,141,410</u>	<u>\$ 98,431,946</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2022 compared to 2021 and 2020.

Table 4 – Outstanding Debt at Year End

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Note payable - KIA	\$ 1,460,824	\$ 1,542,153	\$ 1,621,329
Capitalized lease - BC Fiscal Court	-	1,636,545	1,705,391
Total	<u>\$ 1,460,824</u>	<u>\$ 3,178,698</u>	<u>\$ 3,326,720</u>

At the end of 2022, the District had \$1,460,824 in outstanding long-term debt compared to \$3,178,698 in 2021 and \$3,326,720 in 2020. This is a decrease of \$1,717,874 which includes \$114,059 of principal paid on the District's debt during 2022 as well as \$1,603,813 of forgiveness of the remaining capital lease by the Boone County Fiscal Court.

All of the required payments were made on the District's outstanding debt during 2022.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2023 projects operating revenues to increase 4.48% while operating expenses are expected to increase approximately 1.57%. Water revenues are projected to increase over the 2022 year due to continued expansion of the water system, new corporate development, and new households being added to the system. Operation expenses are also expected to increase due to continued inflationary pressures and increases in employee wages and benefit costs to stay competitive in the market. The increase in operating income is expected to offset the increase in the operating expenses so that there may be a decrease in operating loss at the end of 2023. This operating loss is expected to be offset by any capital contributions that the District receives.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 2475 Burlington Pike, Burlington, Kentucky 41005.

Harry Anness

Harry Anness, General Manager
Boone County Water District

BOONE COUNTY WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2022 and 2021
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ASSETS

	<u>2022</u>	<u>2021</u>
Current Assets		
Cash and cash equivalents	\$ 3,688,281	\$ 2,186,420
Investments	8,776,430	7,773,740
Reserve for depreciation, investment cash and equivalents and CDs	6,461,055	8,101,808
Accounts receivable		
Customers, net of allowance	2,370,450	2,653,535
Others	69,389	12,304
Assessments receivable	204,525	192,430
Inventories	254,777	209,337
Prepays	41,187	40,972
Total Current Assets	<u>21,866,094</u>	<u>21,170,546</u>
Restricted Assets		
Debt service account	376	354
Total Restricted Assets	<u>376</u>	<u>354</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	153,893,945	148,473,116
Construction in progress	1,151,141	1,051,119
Total utility plant in service	155,045,086	149,524,235
Less accumulated depreciation	<u>(51,449,433)</u>	<u>(48,382,825)</u>
Total Capital Assets, Net	<u>103,595,653</u>	<u>101,141,410</u>
TOTAL ASSETS	<u>125,462,123</u>	<u>122,312,310</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows related to pensions and OPEB	694,896	1,095,868
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>694,896</u>	<u>1,095,868</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>126,157,019</u>	<u>123,408,178</u>

Continued on page 10

BOONE COUNTY WATER DISTRICT STATEMENTS OF NET POSITION - Continued from page 9 December 31, 2022 and 2021
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LIABILITIES

	<u>2022</u>	<u>2021</u>
Current Liabilities		
Accounts payable	1,057,234	1,021,882
Accrued payroll and taxes	418,310	364,519
Deferred revenue on tap ins	93,600	128,000
Customer deposits	315,101	321,551
Total Current Liabilities	<u>1,884,245</u>	<u>1,835,952</u>
Current Liabilities Payable From Restricted Assets		
KIA note payable	83,539	81,328
Capital lease payable	-	71,627
Accrued interest payable	3,530	32,105
Total Current Liabilities Payable From Restricted Assets	<u>87,069</u>	<u>185,060</u>
Long-Term Obligations		
KIA note payable - KRW	1,377,285	1,460,825
Capital lease - KRW	-	1,564,918
Net unfunded pension and OPEB liability	4,803,082	4,675,194
Total Long-Term Obligations	<u>6,180,367</u>	<u>7,700,937</u>
TOTAL LIABILITIES	8,151,681	9,721,949
DEFERRED INFLOW OF RESOURCES		
Deferred inflow related to pensions and OPEB	661,630	1,200,757
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>8,813,311</u>	<u>10,922,706</u>
NET POSITION		
Net investment in capital assets	102,134,829	97,962,712
Restricted	(3,154)	(31,751)
Unrestricted	15,212,033	14,554,511
TOTAL NET POSITION	<u>\$ 117,343,708</u>	<u>\$ 112,485,472</u>

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

BOONE COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For Years Ending December 31, 2022 and 2021
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	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water revenue	\$ 17,015,145	\$ 16,959,686
Forfeited discounts	211,647	160,586
Other water revenues	<u>73,683</u>	<u>73,679</u>
TOTAL OPERATING REVENUES	<u>17,300,475</u>	<u>17,193,951</u>
OPERATING EXPENSES		
Water purchased	11,422,089	11,012,893
Operation and maintenance expense	4,273,510	3,842,986
Depreciation	<u>3,096,260</u>	<u>2,989,428</u>
TOTAL OPERATING EXPENSES	<u>18,791,859</u>	<u>17,845,307</u>
OPERATING LOSS	<u>(1,491,384)</u>	<u>(651,356)</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	36,186	10,845
Investment (loss) income	(661,070)	(63,413)
Gain on disposal of assets	198,708	-
Net effect of change in pension and OPEB expense	10,267	(211,028)
Interest on long-term obligations	<u>(48,293)</u>	<u>(113,746)</u>
NET NON-OPERATING INCOME (EXPENSE)	<u>(464,202)</u>	<u>(377,342)</u>
NET LOSS	(1,955,586)	(1,028,698)
CAPITAL CONTRIBUTIONS	<u>6,813,822</u>	<u>4,984,616</u>
CHANGE IN NET POSITION	4,858,236	3,955,918
NET POSITION, JANUARY 1	<u>112,485,472</u>	<u>108,529,554</u>
NET POSITION, DECEMBER 31	<u><u>\$ 117,343,708</u></u>	<u><u>\$ 112,485,472</u></u>

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

BOONE COUNTY WATER DISTRICT STATEMENTS OF CASH FLOWS For Years Ending December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 17,514,380	\$ 17,412,594
Paid to suppliers for goods and services	(14,174,820)	(13,595,237)
Paid to or on behalf of employees for services	(1,518,141)	(1,398,397)
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	<u>1,821,419</u>	<u>2,418,960</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and sales of investments	(1,708,526)	(3,396,437)
Interest on investments	16,416	10,845
NET CHANGE IN CASH FROM INVESTING ACTIVITIES	<u>(1,692,110)</u>	<u>(3,385,592)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(114,059)	(148,022)
Transfers from reserve for depreciation	1,683,531	3,406,739
Interest paid on long-term debt	(76,868)	(113,510)
Acquisition and construction of fixed assets	(761,198)	(1,111,441)
Contributed capital received	416,168	424,231
Sale of capital assets	225,000	-
Decrease (increase) in restricted funds - debt service account	(22)	-
NET CHANGE IN CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,372,552</u>	<u>2,457,997</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,501,861	1,491,365
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>2,186,420</u>	<u>695,055</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 3,688,281</u>	<u>\$ 2,186,420</u>
RECONCILIATION OF OPERATING INCOME TO NET CHANGE IN CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (1,491,384)	\$ (651,356)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,096,260	2,989,428
Change in operating assets and liabilities		
Decrease (increase) in receivables	213,905	218,643
Decrease (increase) in inventories	(45,440)	(44,560)
Decrease (increase) in prepaid assets	(215)	(9,569)
Increase (decrease) in accounts payable	35,352	(125,510)
Increase (decrease) in accrued payroll and taxes	53,791	22,979
Increase (decrease) in deferred revenue on tap ins	(34,400)	31,320
Increase (decrease) in customer deposits	(6,450)	(12,415)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,821,419</u>	<u>\$ 2,418,960</u>
Non-Cash Capital and Related Financing Activities:		
Capital assets contributed to the District	<u>\$ 4,793,840</u>	<u>\$ 4,560,384</u>
Supplemental Information		
Interest paid	<u>\$ (76,868)</u>	<u>\$ (113,510)</u>

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

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Boone County Water District (District) is a water utility, which provides service to residential and commercial customers in Boone County, Kentucky. The District was created by the Boone County Court under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”).

Regulatory Requirements

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

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

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

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

Assessments Receivable

Assessments that the District has levied on property owners for the extension of water service to their property are recorded as a receivable at the time of the final public hearing.

Allowance for Bad Debts

The District maintained an allowance for bad debts of \$30,500 and \$30,500 at 2022 and 2021, respectively.

Cash Equivalents

For purposes of the statement of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government’s website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of results of operations.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress." When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and assessments charged to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors. These amounts have been reduced by rebates paid to the contractor for 50 feet of line each time that a new customer taps into the contributed line.

Income Tax Status

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

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sale of fixed assets and interest income.

NOTE 2 – DEPOSITS

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the Statement of Net Position as "Cash and Cash Equivalents" and "Restricted Assets". The balances for Cash and Cash Equivalents were \$10,149,336 and \$10,288,228 at December 31, 2022 and 2021, respectively. The balances for Restricted Assets were \$376 and \$354 at December 31, 2022 and 2021, respectively.

The District's General Bond Resolution dated October 13, 1992 permits investment of monies in each fund, consistent with the contemplated use of such monies, in investment obligations defined as follows:

- a) Direct obligations of or obligations guaranteed by the United States of America;

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

- b) Obligations issued by any of the following agencies: Federal Home Loan Bank System; Export-Import Banks; Government National Mortgage Association; Farmers Home Administration; Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association; and any other Federal Agency to the extent that such obligations are backed by the full faith and credit of the United States (other than provided in (a) hereof);
- c) Public housing bonds issued by public housing authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public housing authorities, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- d) U.S. Dollar denominated deposit accounts fully insured to the holder (up to the \$250,000 maximum coverage) by the Federal Deposit Insurance Corporation in commercial banks, and to the extent not so insured (amounts in excess of \$250,000 maximum coverage), collateralized by obligations described in (a) or (b) above, having at all times a quoted market value at least equal to such uninsured amount plus accrued and undisbursed interest;
- e) General obligations to the Commonwealth of Kentucky;
- f) A pool or fund made up entirely of U.S. Government obligations or obligations guaranteed both as to principal and interest by the U.S. Government ; or
- g) Repurchase agreements for U.S. Government Obligations, secured in the same manner as is provided in (d) above for other deposits.

NOTE 3 – INVESTMENTS

Investment obligations are deemed to be part of the fund or account for which they were purchased. Income, interest, gains and losses on an investment obligation are credited or charged to the fund or account for which such an investment obligation was purchased. In the case of the Debt Service Reserve, as long as the aggregate debt service reserve requirement is being maintained, excess income from that fund is to be transferred to the Water Reserve Fund.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

Investments' fair value measurements are as follows at December 31, 2022:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. treasuries	\$ 4,365,516	\$ 4,365,516	\$ -	\$ -
U.S. agencies (FNMA, etc.)	2,017,769	2,017,769	-	-
Total debt securities	<u>6,383,285</u>	<u>6,383,285</u>	<u>-</u>	<u>-</u>
Equity securities:				
Mutual funds	2,393,145	2,393,145	-	-
Total equity securities	<u>2,393,145</u>	<u>2,393,145</u>	<u>-</u>	<u>-</u>
Subtotal investments	<u>8,776,430</u>	<u>8,776,430</u>	<u>-</u>	<u>-</u>
Cash and Cash Equivalents				
Money market funds	311,152	311,152	-	-
Total investments	<u>\$ 9,087,582</u>	<u>\$ 9,087,582</u>	<u>\$ -</u>	<u>\$ -</u>

Investments' fair value measurements are as follows at December 31, 2021:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. treasuries	\$ 1,888,895	\$ 1,888,895	\$ -	\$ -
U.S. agencies (FNMA, etc.)	1,660,556	1,660,556	-	-
Total debt securities	<u>3,549,451</u>	<u>3,549,451</u>	<u>-</u>	<u>-</u>
Equity securities:				
Mutual funds	4,224,289	4,224,289	-	-
Total equity securities	<u>4,224,289</u>	<u>4,224,289</u>	<u>-</u>	<u>-</u>
Subtotal investments	<u>7,773,740</u>	<u>7,773,740</u>	<u>-</u>	<u>-</u>
Cash and Cash Equivalents				
Money market funds	1,994,682	1,994,682	-	-
Total investments	<u>\$ 9,768,422</u>	<u>\$ 9,768,422</u>	<u>\$ -</u>	<u>\$ -</u>

Debt and equity securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Debt securities categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices.

In accordance with GASB 40, the District had \$0 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2022 and 2021, respectively. The market risk on these investments is negligible.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

NOTE 4 – RESTRICTED PORTION OF NET POSITION

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted portion of net position. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets not included in the above categories.

Included in restricted portion of net position at December 31,

	<u>2022</u>	<u>2021</u>
Debt Service Account	\$ 376	\$ 354
Subtotal - Restricted Assets	376	354
Less: non-capital payables to be paid from restricted assets: accrued interest payable	(3,530)	(32,105)
Total Restricted Portion of Net Position	<u>\$ (3,154)</u>	<u>\$ (31,751)</u>

NOTE 5 – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method as detailed in Note 1. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-40 years
Furniture and fixtures	5-15 years
Machinery and equipment	5-10 years
Automated meter system	50 years
Transmission lines	50 years
Rate Study	4 years

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

Asset Type	Balance at December 31, 2021	Additions	Retirements	Balance at December 31, 2022
Land	\$ 256,633	\$ -	\$ -	\$ 256,633
Transmission lines	142,744,203	5,346,142	(55,944)	148,034,401
Automated meter system	1,663,110	-	-	1,663,110
Buildings	1,978,046	7,305	-	1,985,351
Machinery and equipment	1,435,403	67,671	-	1,503,074
Furniture and fixtures	175,143	55,655	-	230,798
Rate study	220,578	-	-	220,578
Construction in progress	1,051,119	100,022	-	1,151,141
Subtotal	149,524,235	5,576,795	(55,944)	155,045,086
Accumulated depreciation	(48,382,825)	(3,096,260)	29,652	(51,449,433)
Fixed Assets, net	\$ 101,141,410	\$ 2,480,535	\$ (26,292)	\$ 103,595,653

NOTE 6 – LONG TERM DEBT

The following is a summary of the District's debt:

Debt type	Balance at December 31 2021	Additions	Principal Payments	Balance at December 31 2022	Current Portion
KIA Loan	1,542,153	-	(81,329)	1,460,824	83,539
BCFC Capital Lease	1,636,545	-	(1,636,545)	-	-
Totals	\$ 3,178,698	\$ -	\$ (1,717,874)	\$ 1,460,824	\$ 83,539

Capital Lease – Boone County Fiscal Court

The District established a capital lease related to its acquisition of Rural Water lines from the Boone County Fiscal Court, effective during the year ended 2009. This capital lease carries an interest rate of 2.00% and expires on August 1, 2037. District infrastructure assets serve as collateral for this debt. The District made a scheduled payment of 32,731 in February 2022 and the remaining balance of \$1,603,814 due to the Boone County Fiscal Court was forgiven by the Fiscal Court. The Fiscal Court defeased its bonds with County funds.

Note Payable – Kentucky Infrastructure Authority

The District established a note payable related to its acquisition of Rural Water lines from the Boone County Fiscal Court, effective during the year ended 2009. This note payable carries an interest rate of 2.70% and matures on June 1, 2037. District infrastructure assets serve as collateral for this debt.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

Remaining debt service requirements on this note payable are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	2.70%	\$ 83,539	\$ 41,762	\$ 125,301
2024	2.70%	85,810	39,323	125,133
2025	2.70%	88,142	36,818	124,960
2026	2.70%	90,538	34,245	124,783
2027	2.70%	92,999	31,602	124,601
2028-2032	2.70%	504,318	115,772	620,090
2033-2037	2.70%	515,478	38,040	553,518
Totals		<u>\$ 1,460,824</u>	<u>\$ 337,562</u>	<u>\$ 1,798,386</u>

NOTE 7 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM

Plan description – District employees are covered by CERS (County Employees’ Retirement System), a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Public Pension Authority, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Public Pension Authority administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Public Pension Authority issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications. The District has only Non-Hazardous employees.

Membership in CERS consisted of the following at June 30, 2021:

	Non-Hazardous	
	Pension	OPEB
Active Plan Members	77,367	76,946
Inactive Plan Members	100,738	28,719
Retired Members	67,206	37,584
	<u>245,311</u>	<u>143,249</u>
Number of participating employers		<u>1,141</u>

PENSION PLAN

Non-Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

<p>BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021</p>
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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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of 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. Participating employees become eligible to receive health insurance benefits 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 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required pension plan contributions by the employee are based on the tier:

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

Contributions

The District contributed 26.95% of covered-employee's compensation (from January – June 2022) of which 21.17% was for the pension fund and 5.78% was for the health insurance fund and contributed 26.79% of covered-employee's compensation (from July – December 2022), of which 23.40% was for the pension fund and 3.39% was for the health insurance fund.

The District made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$410,846, of which \$341,145 was for the pension fund and \$69,702 was for the health insurance fund.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

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

At December 31, 2022, the District reported a liability of \$3,773,184 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At the June 30, 2022 measurement year, the District's non-hazardous employer allocation proportion was 0.0522% of the total CERS non-hazardous duty employees. For the year ended December 31, 2022, the District recognized a pension benefit of \$84,207 in addition to its \$341,145 pension contribution.

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

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 4,034	\$ (33,602)
Net difference between projected actual earnings on plan investments	96,730	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	44,497	(188,350)
Contributions subsequent to the measurement date	182,905	-
	<u>\$ 328,166</u>	<u>\$ (221,952)</u>

The District's contributions subsequent to the measurement date of \$182,905 will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ending June 30,	Net Deferral
2023	\$ (64,969)
2024	(87,201)
2025	(31,708)
2026	107,187
2027	-
Thereafter	-
	<u>\$ (76,691)</u>

<p>BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021</p>
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Actuarial Methods and Assumptions for Determining the Net Pension Liability

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

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

House Bill 1 passed during the 2022 legislative session and included a provision that provided an approximate 8% across-the-board salary increase for KERS members effective July 1, 2022, for eligible State employees. While this salary increase may produce an actuarial loss with respect to the liability attributable to Tier 1 and Tier 2 active members (i.e., a higher total pension liability than expected based on current actuarial assumptions), there was not sufficient information available at the time the roll forward Total Pension Liability was calculated to make a reasonable adjustment to reflect these anticipated salary increases. It is GRS’s opinion that these procedures for determining the information contained in this report are reasonable, appropriate, and comply with applicable requirements under GASB No. 68.

The actuarial assumptions for CERS Non-Hazardous and CERS Hazardous plans are as follows:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 to June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 years closed period at June 30, 2019; gains and losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll Growth Rate	2.0%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service for Non-Hazardous 3.55% to 19.05% varies by service for Hazardous
Investment Rate of Return	6.25%
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

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

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Changes of Assumptions

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

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute, as amended by House Bill 362, (passed in 2018) over the remaining 29 years (closed) amortization period of the unfunded actuarial accrued liability.

Plan Target Allocation

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Pensions Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Public equity	50.00%	4.45%
Private equity	10.00%	10.15%
Core bonds	10.00%	0.28%
Specialty credit / high yield	10.00%	2.28%
Cash	0.00%	-0.91%
Real estate	7.00%	3.67%
Real return	13.00%	4.07%
Expected Real Return	100.00%	4.28%
Long-Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.25%	6.25%	7.25%
Non-hazardous	\$ 4,716,011	\$ 3,773,184	\$ 2,993,387
Total	\$ 4,716,011	\$ 3,773,184	\$ 2,993,387

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KPPA Trustees. The District contributed 5.78% of covered-employee's compensation (from January – June 2022) and contributed 3.39% of covered-employee's compensation (from July – December 2022) for the health insurance fund. These contributions are actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended December 31, 2022, the District recognized OPEB expense of \$73,940 in addition to its \$69,702 OPEB contribution.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

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

At December 31, 2022, the District reported a liability of \$1,029,898 as its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At the June 30, 2022 measurement year, the District's proportion of the total non-hazardous plan was 0.0522%.

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

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 103,668	\$(236,179)
Net difference between projected actual earnings on plan investments	41,801	-
Changes of assumptions	162,886	(134,217)
Changes in proportion and differences between contributions and proportionate share of contributions	31,877	(69,282)
Contributions subsequent to the measurement date	26,498	-
	<u>\$ 366,730</u>	<u>\$(439,678)</u>

The District's contributions subsequent to the measurement date, \$26,498 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Measurement Year Ending June 30,	Net Deferral
2023	\$ (4,407)
2024	(10,365)
2025	(74,761)
2026	(9,913)
2027	-
Thereafter	-
	<u>\$ (99,446)</u>

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

Actuarial Methods and Assumptions to Determine the Net OPEB Liability

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

The actuarial assumptions for CERS Non-Hazardous and CERS Hazardous plans are as follows:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 to June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 years closed period at June 30, 2019; gains and losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll Growth Rate	2.0%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service for Non-hazardous 3.55% to 19.05% varies by service for Hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 9.00% in 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Nonhazardous Systems, and the PUB2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non- disabled)	System-specific mortality table based on mortality experience 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

The single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021, valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material assumption changes.

Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003, by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable on January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA.

The total OPEB liability as of June 30, 2022, is determined using these updated benefit provisions. There were no other material plan provision changes.

Changes of Assumptions

The discount rates used to calculate the total OPEB liability decreased from 5.20% to 5.70%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2022 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. There were no other material assumption changes.

Discount Rate

Single discount rates of 5.70% for CERS Nonhazardous, 5.61% for CERS Hazardous, 5.72% for KERS Nonhazardous, and 5.59% for KERS Hazardous systems were used to measure the total OPEB liability as of June 30, 2022. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plan trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

Plan Target Allocation

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

Asset Class	CERS Pensions	Long Term
	Non-Hazardous Target Allocation	Expected Nominal Return
Public equity	50.00%	4.45%
Private equity	10.00%	10.15%
Core bonds	10.00%	0.28%
Specialty credit /high yield	10.00%	2.28%
Cash	0.00%	-0.91%
Real estate	7.00%	3.67%
Real return	13.00%	4.07%
Expected Real Return	100.00%	4.28%
Long-Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.70% for the non-hazardous plan, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Discount Rate, Non-Hazardous	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Net OPEB liability, Non-Haz	4.70%	5.70%	6.70%
	\$ 1,376,809	\$ 1,029,898	\$ 743,118
Total	\$ 1,376,809	\$ 1,029,898	\$ 743,118

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

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

Healthcare cost trend rate	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Net OPEB liability, non-hazardous	\$ 765,706	\$ 1,029,898	\$ 1,347,142
Total	\$ 765,706	\$ 1,029,898	\$ 1,347,142

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial reports that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the Kentucky Public Pension Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601 or online at www.kyret.ky.gov.

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 8 – RELATED PARTY TRANSACTIONS

The District purchases water from the joint Boone-Florence Water Commission (Commission). Two of the District's board members also serve as commissioners on the Boone-Florence Water Commission. The Commission is the District's sole source of wholesale water. The Commission was created in a joint venture with the City of Florence, Kentucky to purchase water from the City of Cincinnati, Ohio. During 2022 and 2021, the District purchased \$11,422,089 and \$11,012,893, respectively. During 2022 and 2021, the District leased office space to the Commission at a cost of \$6,000 per year. The District also provided maintenance services to the Water Commission lines and towers and was reimbursed \$46,632 and \$21,636 for those services during 2022 and 2021, respectively.

NOTE 9 – ECONOMIC DEPENDENCY/CREDIT RISK

Boone County Water District is a government agency operating with one office in Burlington, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Boone County, Kentucky.

NOTE 10 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 87 – *Leases* – FY 2022
Statement No. 92 – *Omnibus 2020* – FY 2022
Statement No. 93 – *Replacement of Interbank Offered Rates* – FY 2022
Statement No. 94 – *Public-Private and Public-Public Partnerships* – FY 2022
Statement No. 96 – *Subscription-Based Information Technology Arrangements* – FY 2022
Statement No. 97 – *Component Unit Criteria for IRS Section 457 Deferred Comp. Plans* – FY 2022
Statement No. 98 – *The Annual Comprehensive Financial Report* – FY 2022

The implementation of these standards had no significant effect on the District.

NOTE 11 – FUTURE ACCOUNTING STANDARDS

Statement No. 91 – *Conduit Debt Obligations* – FY 2023
Statement No. 99 – *Omnibus 2022* – FY 2023

NOTE 12 – ANNEXATION OF MARYDALE PROPERTY

In November 2021, the City of Florence annexed the "Marydale" property, formerly a parcel in unincorporated Boone County. This property has had District water infrastructure in place for almost 25 years. The City of Florence and the District agreed to sell this water infrastructure to the City in exchange for \$225,000. The City of Florence will tie this infrastructure into its' existing water lines. The District recognized \$225,000 as a sale of capital assets in fiscal year 2022.

NOTE 13 – SUBSEQUENT EVENTS

Management has considered subsequent events through May 18, 2023, which represents the date the financial statements were available to be issued. The District did not have any events subsequent to December 31, 2022 through May 18, 2023 to disclose.

BOONE COUNTY WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN-NON-HAZARDOUS
Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Proportion of net pension liability	0.05220%	0.05640%	0.05494%	0.05336%	0.05267%	0.05077%	0.05000%	0.05102%		
Proportionate share of the net pension liability (asset)	\$ 3,773,184	\$ 3,595,751	\$ 4,213,699	\$ 3,752,792	\$ 3,207,520	\$ 2,971,900	\$ 2,461,715	\$ 2,193,686		
Covered employee payroll in year of measurement	\$ 1,443,314	\$ 1,442,153	\$ 1,409,158	\$ 1,345,944	\$ 1,305,317	\$ 1,143,696	\$ 1,179,827	\$ 1,151,543		
Share of the net pension liability (asset) as a percentage of its covered employee payroll	261.43%	249.33%	299.02%	278.82%	245.73%	259.85%	208.65%	190.50%		
Plan fiduciary net position as a percentage of total pension liability	52.42%	57.33%	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%		

Schedule of the District's Pension Fund Contributions
County Employees' Retirement System (CERS)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 341,145	\$ 282,724	\$ 284,296	\$ 247,340	\$ 205,408	\$ 179,614	\$ 142,047	\$ 150,428	\$ 158,222	
Actual contribution	341,145	282,724	284,296	247,340	205,408	179,614	142,047	150,428	158,222	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered employee payroll	\$ 1,529,116	\$ 1,397,470	\$ 1,437,819	\$ 1,393,882	\$ 1,335,691	\$ 1,238,229	\$ 1,143,696	\$ 1,179,827	\$ 1,151,543	
Contributions as a percentage of covered employee payroll	22.31%	20.23%	19.77%	17.79%	15.38%	14.51%	12.42%	12.75%	13.74%	

Notes to Required Supplementary Information
for the Year Ended December 31, 2022

The net pension liability as of December 31, 2022, is based on the June 30, 2022, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 7 in the Notes to the Financial Statements.

BOONE COUNTY WATER DISTRICT MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN-NON-HAZARDOUS Last Ten Fiscal Years

**Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employees' Retirement System (CERS)**

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Proportion of net pension liability	0.05219%	0.05638%	0.05492%	0.05335%	0.052660%					
Proportionate share of the net pension liability (asset)	\$ 1,029,898	\$ 1,079,443	\$ 1,326,199	\$ 897,239	\$ 935,039					
Covered employee payroll in year of measurement	\$ 1,443,314	\$ 1,442,153	\$ 1,409,158	\$ 1,345,944	\$ 1,305,317					
Share of the net pension liability (asset) as a percentage of its covered employee payroll	71.36%	74.85%	94.11%	66.66%	71.63%					
Plan fiduciary net position as a percentage of total pension liability	60.95%	62.91%	51.67%	60.44%	57.62%					

**Schedule of the District's OPEB Fund Contributions
County Employees' Retirement System (CERS)**

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 69,702	\$ 73,617	\$ 70,116	\$ 69,593	\$ 66,640	\$ 61,453				
Actual contribution	69,702	73,617	70,116	69,593	66,640	61,453				
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Covered employee payroll	\$ 1,529,116	\$ 1,397,470	\$ 1,437,819	\$ 1,393,882	\$ 1,335,691	\$ 1,238,229				
Contributions as a percentage of covered employee payroll	4.56%	5.27%	4.88%	4.99%	4.99%	4.96%				

**Notes to Required Supplementary Information
for the Year Ended December 31, 2022**

The net OPEB liability as of December 31, 2022, is based on the June 30, 2022, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 7 in the Notes to the Financial Statements.

**Independent Auditor’s Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**To the Board of Commissioners
Boone County Water District
Burlington, 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 Boone County Water District as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements which collectively comprise Boone County Water District’s basic financial statements and have issued our report thereon dated May 18, 2023.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Boone 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 Boone County Water District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Boone 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did not identify deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boone 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.

Certified Public Accountants

Erlanger, Kentucky

May 18, 2023