

ALLEN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2023

ALLEN COUNTY WATER DISTRICT

TABLE OF CONTENTS

December 31, 2023

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 6
BASIC FINANCIAL STATEMENTS:	
Statement of net position	7 - 8
Statement of revenues, expenses and changes in net position	9
Statement of cash flows	10 - 11
Notes to financial statements	12 - 31
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of investment returns	32
Schedule of changes in the employers' net pension liability and related ratios	33
Schedule of District contributions	34
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 <i>GOVERNMENT AUDITING STANDARDS</i>	35-36
SCHEDULE OF FINDINGS AND RESPONSES	37



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Allen County Water District
Scottsville, Kentucky

Opinion

We have audited the accompanying financial statements of the Allen County Water District (the "District"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Allen County Water District as of December 31, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

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

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

- Exercise professional 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 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 District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 and pension schedules on pages 32 through 34 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited

procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Handwritten signature in black ink that reads "Kirby & Moore, LLP". The signature is written in a cursive style.

Bowling Green, Kentucky
May 30, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Allen County Water District's (the District) financial performance provides an overview of its financial activities for the year ended December 31, 2023. Please read it in conjunction with the District's financial statements, which begins on page 7.

The District's Operations – An Overview

The District engages in various activities classified as "proprietary". These activities are accounted for much like that of a private business and use the full accrual method of accounting for transactions. The major activities include construction, operation and maintenance of water service facilities and the supplying of water to customers in Allen County, Kentucky. The District purchases its water supply from nearby city water utilities. The District operates and maintains the distribution system that supplies its end users.

Basic Financial Statements

In accordance with the Government Accounting Standards Board (GASB) Statement No. 34, the District's financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position includes the 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). The difference between the assets and liabilities is shown as net position. This statement also provides the basis of evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues and expenses and changes in net assets accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash disbursements, and net changes in cash resulting from operations and investments during the reporting period.

The notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statement of Net Position

	December 31	
	2023	2022
Current assets	\$ 2,936,575	\$ 3,470,070
Restricted assets	2,268,373	2,053,084
Capital assets, net of depreciation	13,937,419	13,478,252
Other assets	555	555
Deferred outflows of resources	114,630	120,024
Total assets and deferred outflows	<u>\$ 19,257,552</u>	<u>\$ 19,121,985</u>
Current liabilities, including current portion of long-term debt	\$ 532,397	\$ 551,809
Non-current liabilities	6,015,980	6,264,961
Total liabilities	<u>6,548,377</u>	<u>6,816,770</u>
Deferred inflow of resources	87,676	127,926
Total net position	<u>12,621,499</u>	<u>12,177,289</u>
Total liabilities, deferred inflows and net position	<u>\$ 19,257,552</u>	<u>\$ 19,121,985</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Metered water sales	\$ 3,071,545	\$ 3,070,633
Other operating revenue	133,421	124,202
Total operating revenue	<u>3,204,966</u>	<u>3,194,835</u>
Water purchased	817,674	822,715
Transmission and distribution costs	846,552	753,328
Other operating expenses	1,404,924	1,419,915
Total operating expenses	<u>3,069,150</u>	<u>2,995,958</u>
Net non-operating (expenses) and revenue	(34,873)	(492,884)
Income (loss) before capital contributions	100,943	(294,007)
Capital contributions	343,267	169,540
Change in net position	444,210	(124,467)
Net position, beginning of year	<u>12,177,289</u>	<u>12,301,756</u>
Net position, end of year	<u>\$ 12,621,499</u>	<u>\$ 12,177,289</u>

Financial Highlights

The District's net position increased \$444,210 in 2023, compared to a decrease of \$124,467 in 2022. Total operating revenue increased \$10,131 and total operating expenses increased \$73,192 from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Actual versus Budget Comparison

During 2023, actual total operating revenue was \$3,204,966, \$17,331 more than budgeted revenues, while actual total operating expenses of \$3,069,150 were more than budgeted operating expenses by \$27,150. The favorable revenue budget variance was miscellaneous service revenue. The unfavorable cost variance to budget was transmission and distribution expenses.

Capital contributions for 2023 (\$343,267) exceeded budget by \$195,267.

The above factors resulted in a change in net position of \$444,210, versus a budget of \$176,401, resulting in a favorable budget variance of \$267,809.

Capital Assets and Debt Administration

During 2023, capital asset additions included purchase of meters (\$686,966), transportation equipment (\$229,686), pumping equipment (\$23,346), office equipment (\$900), and land and land rights (\$42,750).

Funding for major expansions of the water distribution system has been obtained primarily from loans through United States Department of Agriculture - Rural Development Agency, Kentucky Rural Water Finance, and Kentucky Infrastructure Authority at interest rates varying from 2% to 4.50%. Maturity of the loans and revenue bonds range from 2038 through 2052. See Footnote 4 to the financial statements for unpaid balances of the loans and revenue bonds as of December 31, 2023, and for maturity balances over the next 5 years and thereafter. During 2023, the District paid principal on the loans and revenue bonds totaling \$258,558 and interest totaling \$200,994 per statement of cash flows.

Economic Factors and Next Year's Budgets and Rates

Due to its position as the sole provider of water to Allen County residents, other than ground wells and other self-provided methods by individual consumers, the District's operations are considered stable. No increase in the cost of purchased water is anticipated from suppliers in the upcoming year and the District's water rates were increased approximately 13.56% effective March 1, 2021. Moreover, the District's debt structure consists of long-term, fixed rate financing at rates considered low by historical standards, reinforcing the expectation of stability.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact District General Manager Adam Nunn, 330 New Gallatin Road, Scottsville, KY 42164 or by phone at (270) 622-3040.

Wayne Jackson
Chairman, Board of Commissioners

ALLEN COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

December 31, 2023

Assets and Deferred Outflows of Resources

Current assets	
Cash and cash equivalents	\$ 205,198
Investments	2,434,915
Accounts receivable from customers, net of allowance of \$10,500	237,003
Inventory	32,174
Prepaid insurance	18,128
Prepaid expenses	4,759
Accrued interest receivable	<u>4,398</u>
Total current assets	<u>2,936,575</u>
Restricted assets	
Cash – customer’s deposits	138,057
Cash – bond and interest redemption account	1,168,027
Cash – depreciation reserve account	599,689
Cash – bond reserve accounts	24,754
Cash – water loss surcharge	<u>337,846</u>
Total restricted assets	<u>2,268,373</u>
Capital assets not being depreciated	
Land and land rights	357,412
Construction in progress	138,750
Capital assets being depreciated, net of accumulated depreciation of \$10,943,477	
Water supply and distribution system	<u>13,441,257</u>
Total capital assets	<u>13,937,419</u>
Other assets	
Utility deposits	<u>555</u>
Deferred outflows of resources	
Deferred cost of pension	<u>114,630</u>
Total assets and deferred outflows of resources	<u>\$ 19,257,552</u>

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

ALLEN COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

December 31, 2023

Liabilities, Deferred Inflows of Resources, and Net Position

Current liabilities	
Current maturities of long-term debt	\$ 267,324
Accounts payable, payroll taxes and other payables	83,909
Customer deposits	110,153
Accrued interest	<u>71,011</u>
Total current liabilities	<u>532,397</u>
Non-current liabilities	
Long-term debt, less current maturities	5,808,184
Net pension liability	<u>207,796</u>
Total non-current liabilities	<u>6,015,980</u>
Total liabilities	<u>6,548,377</u>
Deferred inflows of resources	
Pension, other deferrals	<u>87,676</u>
Net position	
Net investment in capital assets	7,861,911
Restricted for debt service and capital outlay	1,977,358
Unrestricted	<u>2,782,230</u>
Total net position	<u>12,621,499</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 19,257,552</u>

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

ALLEN COUNTY WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Year Ended December 31, 2023

Operating revenues	
Metered water sales	\$ 3,071,545
Forfeited discounts	40,497
Pumping charges for water returns to supplier	33,265
Miscellaneous service revenue	<u>59,659</u>
Total operating revenues	<u>3,204,966</u>
Operating expenses	
Source of supply and pumping	817,674
Transmission and distribution	846,552
Customer accounts	15,566
Administrative and general	682,817
Depreciation	680,676
Taxes other than income	<u>25,865</u>
Total operating expenses	<u>3,069,150</u>
Operating income	<u>135,816</u>
Non-operating revenues and (expenses)	
Interest income	121,796
Interest expense	(191,390)
Unrealized loss on investments	(29,173)
Non-utility income	8,606
Debt issue fees	(2,937)
Insurance recoveries	3,343
Gain on sale of equipment	<u>54,882</u>
Net non-operating revenues and (expenses)	<u>(34,873)</u>
Income before capital contributions	100,943
Capital contributions	<u>343,267</u>
Increase in net position	444,210
Net position, beginning of year	<u>12,177,289</u>
Net position, end of year	<u>\$ 12,621,499</u>

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

ALLEN COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 3,216,266
Salaries, wages and employee benefits	(1,037,686)
Purchased water	(837,126)
Other operating expenses	(<u>578,548</u>)

Net cash provided by operating activities 762,906

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(1,066,569)
Proceeds from sale of capital assets	54,882
Insurance proceeds	3,343
Principal paid on revenue bonds and notes payable	(258,558)
Interest paid on revenue bonds and other debt	(200,994)
Debt issue fees paid	(2,937)
Capital contributions	<u>343,267</u>

Net cash used in capital and related financing activities (1,127,566)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	120,731
Proceeds from sale, matured investments	904,222
Purchase of investments	(<u>721,544</u>)

Net cash provided by investing activities 303,409

Net decrease in cash and cash equivalents (61,251)

Cash and cash equivalents, beginning of year 2,534,822

Cash and cash equivalents, end of year \$ 2,473,571

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents	\$ 205,198
Restricted cash and cash equivalents	<u>2,268,373</u>
	<u>\$ 2,473,571</u>

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

ALLEN COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$	135,816
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation		680,676
Other non-operating revenue		8,606
Decrease in deferred outflows of resources		5,394
Decrease in deferred inflows of resources	(40,250)
Decrease in accounts receivable		9,274
Increase in inventory	(32,174)
Increase in prepaid items	(4,205)
Decrease in accounts payable and accrued expenses	(12,190)
Decrease in customer deposits	(6,684)
Increase in pension liability		<u>18,643</u>
Net cash provided by operating activities	\$	<u>762,906</u>

SUPPLEMENTAL DISCLOSURES

Non-Cash Investing, Capital and Financing Activities:

Unrealized loss on investments, net	\$	<u>29,173</u>
-------------------------------------	----	---------------

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

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Allen County Water District (the “District”) is a tax-exempt division of Allen County, Kentucky, organized in 1974 under KRS 74.010 to provide water services to portions of Allen County, Kentucky. District Commissioners are appointed by the Allen County Judge, who has no other authority over the District.

Basis of Presentation

The District’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The District’s basic financial statements include only proprietary fund financial statements because the District engages only in a single business-type activity.

The focus of proprietary fund measurement is upon determination of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. The generally accepted accounting principles applicable are similar to those businesses in the private sector. Amounts recorded as operating revenues are those revenues generated from general water service operations and all other revenues are recorded as non-operating revenues or capital contributions. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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

- *Net Investment in Capital Assets* - This component of net position consists of the District’s net investment in capital assets, including restricted capital assets, net of accumulated depreciation, 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- *Restricted* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

- *Accrual* - The proprietary fund financial statements are presented on the accrual basis of accounting. The District follows the practice of recording metered sales when billed to the customers and recording related expenses when billed to the water district. This results in a lag of recording revenue and related expenses. However, it does provide approximate matching of revenue and expenses and does not have a material effect between years.

Operating revenues are revenues generated from general water operations (water sales, forfeited discounts and miscellaneous service revenue) and all other non-water revenues are considered non-operating revenues.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The 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.

Cash and Cash Equivalents

The District has defined cash and cash equivalents to include all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments and Investment Income

The District maintains various designated and restricted accounts at area financial institutions that are held for debt service obligations and other items. District investments, held by Baird as custodian, include investments in money market funds, U.S. agency obligations and negotiable certificates of deposit carried at fair value. Fair value is determined based on quoted market prices or yields currently available on comparable securities of issuers with similar credit ratings.

Accounts Receivable

Customer accounts receivable amounts arise from monthly water usage. Based on District policy, water meters are read monthly. Payment must be received or postmarked before the close of business on the 25th day following the date of the bill; otherwise, the delinquent bill will be assessed a late fee. Should the final due date for payment at the net rates fall on a Sunday or holiday, the next business day following the final due date will be held as a day of grace for delivery of payment. Delinquent bills may result in disconnection of service with the District applying the customer's deposit against the unpaid bill. The customer shall be given at least a 5-day written notice of termination, and at least 20 days shall have passed since the issuance of the original bill. Bills and notices are mailed to the customer at the address listed on the Water Service Contract unless a change of address has been filed with the District in writing. The District will not otherwise be responsible for delivery of any bill or notice nor will the customer be excused from the payment of any bill or any performance required in the notice. If collection of customer accounts receivable amounts are considered unlikely, the balances are charged off as a bad debt expense in the period in which they were deemed uncollectible.

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management's periodic evaluation of the adequacy of the allowance for doubtful accounts is based on past loss experience, known and other risks inherent to the specific amount, adverse situations that may affect the customer's ability to render payment and current economic conditions. Management considers many factors in determining whether a receivable is impaired, such as payment history and changes in employment. The allowance was \$10,500 as of December 31, 2023.

Concentration of Credit Risk

The District extends credit to all citizens who live within the geographic location of the District and who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Restricted Assets

Certain proceeds of bonds and loans, as well as certain resources set aside for their payment, are classified as restricted assets on the balance sheet since their use is limited by applicable bond indentures and loan agreements. Construction fund accounts are used to report proceeds of revenue bonds and loans that are restricted for use in construction and capital acquisitions. Depreciation and maintenance and replacement reserve accounts are the resources set aside to provide reasonable reserves for renewals, replacements, improvements, extensions, extraordinary major repairs and contingencies related to bond and loan obligation projects. Sinking fund redemption accounts are the resources accumulated for debt service payments. The water loss surcharge account, established in 2021 pursuant to Commonwealth of Kentucky, Public Service Commission order, dated February 3, 2021, is restricted to infrastructure improvement and replacement, spending subject to authorization by the Commission.

Customer deposits accounts are restricted to hold customer deposits until service is terminated.

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant and Capitalization Policy

Utility plant is stated at historical cost which includes certain materials, labor, transportation and certain indirect costs. Prior to 2020, interest costs on temporary financing, when utilized, are capitalized until such time as the plant under construction becomes operational.

During 2020, the District early implemented GASB Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB 89 requires the District to expense interest incurred before the end of a construction period and interest should no longer be capitalized. GASB 89 was not effective until reporting periods beginning after December 15, 2020, however, early implementation was encouraged. The provisions of the revised guidance are only applied prospectively.

Depreciation

Depreciation is calculated by the straight-line method to allocate the cost of utility plant assets over their estimated useful lives. The District recognizes one-half of regular annual depreciation in the year of acquisition or disposition of an asset.

The range of estimated useful lives by type of assets are as follows:

Structures (except the office building), pumping equipment, distribution reservoir and standpipes, transmission and distribution mains, services, and hydrants	50 Years
Office building	30 Years
Office furniture, tools, shop and garage equipment, power equipment, meters and communications equipment	10 Years
Transportation equipment	5 Years

Income Taxes

The District is exempt from Federal and State income taxes under Section 501 of the Internal Revenue Code as the District is an adjunct of the Government of Allen County, Kentucky.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to a future period and will not be recognized as an outflow of resource (expense) until that time.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resource (revenue) until that time.

Subsequent Events

Subsequent events have been evaluated through May 30, 2024, which is the date the financial statements were available to be issued.

NOTE 2. CASH DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; letters of credit issued by federal home loan banks; bonds, notes, letters of credit or other obligations of the U. S. Treasury, U. S. agencies or instrumentalities or the state of Kentucky; bonds of any city of the first, second, and third classes, county, school district or educational institution of the state of Kentucky; or surety bonds having an aggregate current face value or current quoted market value at least equal to the amount of the deposits in excess of amounts insured by the FDIC.

All District deposits in banks are insured by the FDIC up to \$250,000 per financial institution. All financial instruments held by Baird as custodian are insured by SIPC up to \$500,000 for securities, and including up to \$250,000 for cash. Baird, additionally, offers coverage in excess of SPIC limits through an insurance policy, with an aggregate coverage limit of \$250 million, purchased through Lloyd's of London.

	December 31 2023
Insured FDIC and SIPC	\$ 2,528,013
Uninsured	2,062,778
	\$ 4,590,791

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 2. CASH DEPOSITS AND INVESTMENTS (Continued)

Uninsured amounts represent balances at banks in excess of the \$250,000 FDIC limit. At December 31, 2023, all uninsured amounts were secured by investment collateral held by the pledging bank in the District’s name.

Investments

In accordance with Kentucky Revised Statutes (KRS) 66.480, the District may legally invest in obligations of the U. S. Treasury, U. S. agencies and instrumentalities, including obligations subject to repurchase agreements, bankers' acceptances, commercial paper, obligations of the Commonwealth of Kentucky and its agencies and instrumentalities, shares of mutual funds or interest-bearing deposits of insured national or state banks.

At December 31, 2023, the District had the following investments and maturities:

<u>Type</u>	<u>Fair Value</u>	<u>Maturities In Years Less than 1</u>
U. S. agency obligations	\$ 448,858	\$ 448,858

Interest Rate Risk – Interest rate risk is the risk of fair value losses arising from rising interest rates. The U.S. agency obligations are presented as an investment with a maturity of less than one year because it is redeemable in full immediately. The District does not have a formal policy to limit its interest rate risk.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2023, the District’s investments in U.S. agency obligations not directly guaranteed by the U.S. Government were rated by S&P and by Moody’s as Aaa.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2023, the District was not exposed to custodial credit risk.

Concentration of Credit Risk – the District places no limit on the amount that may be invested in any one issuer.

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 2. CASH DEPOSITS AND INVESTMENTS (Continued)

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statement of net position as follows:

Carrying value:		
Deposits		\$ 2,473,571
Investments		
FDIC insured deposit multi-bank	689,002	
Negotiable certificates of deposit	1,297,055	
U.S. agency obligations	<u>448,858</u>	<u>2,434,915</u>
		<u>\$ 4,908,486</u>

Included in the following statement of net position captions:

Cash and cash equivalents	\$ 205,198
Investments	2,434,915
Restricted assets:	
Cash and cash equivalents	<u>2,268,373</u>
Total	<u>\$ 4,908,486</u>

Recurring Fair Value Measurement – the District categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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.

The District's above investments as of December 31, 2023, held by Baird as custodian, excluding cash and cash equivalents, are categorized using quoted prices for similar assets in active markets (Level 2 inputs).

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 3. PROPERTY AND EQUIPMENT

Capital asset activity for the year ended December 31, 2023, was as follows:

	<u>Balance at</u> <u>12/31/2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>12/31/2023</u>
Capital assets not depreciated:				
Land and land rights	\$ 314,662	\$ 42,750	\$ —	\$ 357,412
Construction work in progress	<u>—</u>	<u>138,750</u>	<u>—</u>	<u>138,750</u>
Total capital assets not depreciated	<u>314,662</u>	<u>181,500</u>	<u>—</u>	<u>496,162</u>
Capital assets depreciated:				
Communications equipment	55,248	—	—	55,248
Distribution reservoir/standpipes	3,472,273	—	—	3,472,273
Hydrants	43,860	—	—	43,860
Meters	2,341,444	686,966	—	3,028,410
Office building	573,878	—	—	573,878
Office furniture and equipment	225,519	900	—	226,419
Power operated equipment	849,047	—	(163,880)	685,167
Pumping equipment	714,014	23,346	—	737,360
Services	454,991	—	—	454,991
Structures and improvements	1,458,075	—	—	1,458,075
Tools, shop and garage equipment	87,423	—	—	87,423
Transmission/distribution mains	13,036,544	17,445	—	13,053,989
Transportation equipment	<u>392,653</u>	<u>229,686</u>	<u>(114,698)</u>	<u>507,641</u>
Total capital assets depreciated	<u>23,704,969</u>	<u>958,343</u>	<u>(278,578)</u>	<u>24,384,734</u>
Total capital assets	<u>24,019,631</u>	<u>1,139,843</u>	<u>(278,578)</u>	<u>24,880,896</u>
 Less Accumulated Depreciation —				
	<u>Balance at</u> <u>12/31/2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>12/31/2023</u>
Communications equipment	\$ 55,249	\$ —	\$ —	\$ 55,249
Distribution reservoir/standpipes	732,803	79,170	—	811,973
Hydrants	22,720	877	—	23,597
Meters	1,129,346	132,584	—	1,261,930
Office building	421,296	19,354	—	440,650
Office furniture and equipment	205,907	9,834	—	215,741
Power operated equipment	737,492	61,818	(163,880)	635,430
Pumping equipment	239,566	14,403	—	253,969
Services	280,456	9,100	—	289,556
Structures and improvements	142,954	29,162	—	172,116
Tools, shop and garage equipment	57,301	5,720	—	63,021
Transmission/distribution mains	6,190,475	260,876	—	6,451,351
Transportation equipment	<u>325,814</u>	<u>57,778</u>	<u>(114,698)</u>	<u>268,894</u>
Total accumulated depreciation	<u>10,541,379</u>	<u>680,676</u>	<u>(278,578)</u>	<u>10,943,477</u>
Total capital assets, net	<u>\$13,478,252</u>	<u>\$ 459,167</u>	<u>\$ —</u>	<u>\$13,937,419</u>

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following Serial Water Revenue Bonds, issued through USDA Rural Development, payable from bond and interest fund assets, and term loans from Kentucky Rural Water Finance Corporation and Kentucky Infrastructure Authority.

Series of 2006 due annually with principal payments of \$31,000 for 2023, plus interest at 4.5%. Principal payments vary until final maturity, 2046.	\$ 1,264,000
Series of 2012 due annually with principal payments of \$14,500 for 2023, plus interest at 3%. Principal payments vary until final maturity, 2052.	<u>680,000</u>
Total Serial Water Revenue Bonds	<u>1,944,000</u>
Kentucky Rural Water Finance Corporation, term loan with principal payments of \$110,000 for 2023, plus interest at 3.20%. Principal payments and interest rate vary until final maturity, 2038.	<u>1,885,000</u>
Kentucky Infrastructure Authority (KIA), term loan #F19-025 (\$2,450,000 loan amount authorized, \$2,450,000 loan proceeds disbursed to District as of December 31, 2023); interest at 2% payable June 1 and December 1, beginning December 1, 2020; principal due in semi-annual installments on June 1 and December 1 for twenty-year loan term, commencing June 1, 2022.	<u>2,246,508</u>
Total Long-Term Debt	<u>\$ 6,075,508</u>

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 4. LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2023:

	<u>Balance at 12/31/2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 12/31/2023</u>	<u>Amounts Due in One Year</u>
Long-term debt:					
Series of 2006	\$1,295,000	\$ —	(\$ 31,000)	\$1,264,000	\$ 32,500
Series of 2012	694,500	—	(14,500)	680,000	15,000
Ky. Rural Water, mature 2038	1,995,000	—	(110,000)	1,885,000	115,000
KIA loan, 2020	<u>2,349,566</u>	<u>—</u>	<u>(103,058)</u>	<u>2,246,508</u>	<u>104,824</u>
 Total long-term debt	 <u>\$6,334,066</u>	 <u>\$ —</u>	 <u>(\$258,558)</u>	 <u>\$6,075,508</u>	 <u>\$ 267,324</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2023, are as follows:

<u>Year Ending December 31</u>	<u>Serial Water Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 47,500	\$ 76,324
2025	49,500	74,370
2026	51,500	72,334
2027	53,500	70,215
2028	56,000	68,003
2029 – 2033	315,000	303,431
2034 – 2038	383,500	232,564
2039 – 2043	469,500	145,575
2044 – 2048	386,000	47,324
2049 – 2052	<u>132,000</u>	<u>8,070</u>
 Total	 <u>\$ 1,944,000</u>	 <u>\$ 1,098,210</u>

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 4. LONG-TERM DEBT (Continued)

<u>Year Ending December 31</u>	Kentucky Rural Water Loan	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 115,000	\$ 70,519
2025	120,000	66,404
2026	125,000	61,994
2027	130,000	57,338
2028	135,000	52,436
2029 – 2033	690,000	184,912
2034 – 2038	<u>570,000</u>	<u>125,015</u>
Total	<u>\$ 1,885,000</u>	<u>\$ 618,618</u>

<u>Year Ending December 31</u>	KIA Loan	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 104,824	\$ 44,409
2025	106,931	42,302
2026	109,080	40,152
2027	111,273	37,960
2028	113,509	35,723
2029 – 2033	602,700	143,462
2034 – 2038	665,755	80,407
2039 – 2041	<u>432,436</u>	<u>15,261</u>
Total	<u>\$ 2,246,508</u>	<u>\$ 439,676</u>

<u>Year Ending December 31</u>	Total Long-Term Debt	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 267,324	\$ 191,252
2025	276,431	183,076
2026	285,580	174,480
2027	294,773	165,514
2028	304,509	156,162
2029 – 2033	1,607,700	631,805
2034 – 2038	1,619,255	437,985
2039 – 2043	901,936	160,836
2044 – 2048	386,000	47,324
2049 – 2052	<u>132,000</u>	<u>8,070</u>
Total	<u>\$ 6,075,508</u>	<u>\$ 2,156,504</u>

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 5. DEFINED BENEFIT PENSION PLAN

Effective January 1, 1999, the District adopted a defined benefit pension plan. The plan is a single-employer plan, administered by the District. Assets of the plan are invested primarily in equity mutual funds. Amended effective December 31, 2015 and adopted December 1, 2015, membership in the plan and applicable benefit provisions, annual pension costs and actual assumptions are as follows:

Eligibility Factors, Contribution Methods, and Benefit Provisions:

Provision	As of December 31, 2023
a. Eligible to participate	Full-time employees age 21 or greater, with six months minimum service. The plan was closed to new entrants effective December 31, 2015.
b. Contribution Requirements:	
Authorization	By Board of Directors
Actuarially Determined	Yes
Employer Rate	32.0% of covered payroll
Employee Rate	0.00% - employees cannot contribute
c. Period Required to Vest	20% a year after 2 years (100% after 6 years)
d. Eligibility for Distribution	Plan anniversary nearest age 65 and the completion of 5 years of participation.
e. Benefit Determination Base	Highest consecutive 5-year average salary over all service. Annual salary up to \$210,000 considered.
f. Benefit Determination Method	75% of compensation (see determination base, above)
g. Form of Benefit Payments	Single life annuity. Qualified joint and survivor annuity is the required standard option.

Employees covered by benefit terms

At the measurement date of December 31, 2023, the following employees were covered by the benefit terms:

Retirees	1
Terminated – Vested	3
Active employees	<u>2</u>
	<u>6</u>

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 5. DEFINED BENEFIT PENSION PLAN

Contributions – The board of commissioners establishes amounts based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned during the year, with an additional amount to finance any unfunded accrued liability for past service costs. For 2023, the District’s contributions were approximately 70.4% of annual covered payroll.

Net Pension Liability

The District net pension liability was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023.

Actuarial Cost Methods and Assumptions

COST METHOD: The “entry age normal cost method” has been used in determining retirement cost.

PRE-RETIREMENT MORTALITY: Deaths have been projected on the basis of the Pub-G 2010 Mortality Table, projected generationally with Scale MP 2020. Mortality rates at a few sample ages are:

MORTALITY RATES PER 100				
	Males	Males	Females	Females
<u>Age</u>	<u>2030</u>	<u>2040</u>	<u>2030</u>	<u>2040</u>
25	.0326	.0286	.0110	.0100
30	.0499	.0440	.0208	.0181
35	.0706	.0619	.0320	.0281
40	.0894	.0787	.0431	.0381
45	.1062	.0937	.0548	.0482
50	.1383	.1222	.0742	.0655
55	.1993	.1758	.1159	.1019
60	.3044	.2672	.1799	.1576

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 5. DEFINED BENEFIT PENSION PLAN (Continued)

**POST-RETIREMENT
MORTALITY:**

The Pub-G 2010 Mortality Table, projected generationally with scale MP 2020 was used. The life expectancy according to this table is as follows:

<u>Age</u>	<u>Males</u>		<u>Females</u>	
	<u>2030</u>	<u>2040</u>	<u>2030</u>	<u>2040</u>
55	31.86	32.65	34.44	35.13
65	21.87	22.61	24.25	24.92
75	13.52	14.08	15.37	15.89

**VOLUNTARY
TERMINATIONS:**

We have assumed that voluntary terminations will be in accordance with the following sample rates:

<u>AGE</u>	<u>TERMINATION RATE PER 100</u>
25	14.87
30	9.89
35	6.89
40	2.79
45	1.66
50	.44
55	.00

**EXPECTED RETIRE-
MENT PATTERNS:**

Retirement was assumed to occur on the normal retirement date.

**ASSUMED INVEST-
MENT RETURN:**

6.5% annually, pre-retirement.

5.5% annually, post-retirement.

This is equivalent to a single 5.67% rate.

SALARY/GROWTH:

4.5% annually.

Cost of Living Adjustment (COLA)

The board of trustees has the right to declare ad hoc cost of living adjustments (COLA) each year, but are not required to do so. The history of COLA's granted, in the opinion of the actuary, makes the COLA substantively automatic, and a 3% COLA is included in the determination of the Total Pension Liability.

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 5. DEFINED BENEFIT PENSION PLAN (Continued)

Long-Term Expected Return on Plan Assets

The Long-Term Expected Rate of Return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The target allocation and the long term expected rates of return are shown in the table below:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Fixed Income	40%	1.75%
International Fixed Income		
Domestic Equity	60%	5.50%
Foreign Equity		
Cash		
Subtotal	100%	4.00%
Assumed Inflation		<u>2.50%</u>
Total		6.50%

Single Discount Rate

A discount rate of 6.50% was used before retirement and 5.50% after retirement. This translates to a single discount rate of 5.67% used to measure the Total Pension Liability.

Regarding the sensitivity of the Net Pension Liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 5.67%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher.

	1% Decrease <u>4.67%</u>	Current Discount Rate <u>5.67%</u>	1% Increase <u>6.67%</u>
Total Pension Liability	\$ 710,836	\$ 639,218	\$ 578,487
Net Pension Liability	\$ 279,414	\$ 207,796	\$ 147,065

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 5. DEFINED BENEFIT PENSION PLAN (Continued)

Changes in the Net Pension Liability

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances at 12/31/2022	<u>\$ 538,238</u>	<u>\$ 349,085</u>	<u>\$ 189,153</u>
Changes for the year:			
a) Service cost	22,171		22,171
b) Interest	35,515		35,515
c) Differences between expected and actual experience	49,160		49,160
d) Employer contributions		48,213	(48,213)
e) Employee contributions			
f) Net investment income		39,990	(39,990)
g) Benefits and refunds	(5,866)	(5,866)	
h) Admin expenses			
i) Assumption change			
j) Other			
Net changes	<u>100,980</u>	<u>82,337</u>	<u>18,643</u>
Balances at 12/31/2023	<u>\$ 639,218</u>	<u>\$ 431,422</u>	<u>\$ 207,796</u>

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 5. DEFINED BENEFIT PENSION PLAN (Continued)

GASB 68 Pension Expense and Deferred Outflows/Inflows

For the year ended December 31, 2023, the Allen County Water District recognized pension expense of \$32,000. At December 31, 2023, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experiences	\$ 28,625	\$ 58,051
Changes of assumptions	19,077	—
Net difference between projected and actual earnings on pension plan investments	<u>66,928</u>	<u>29,625</u>
Total	<u>\$ 114,630</u>	<u>\$ 87,676</u>

Pension Expense/(Income) under GASB 68

1. Service cost	\$ 22,171
2. Interest on total pension liability	35,515
3. Current period benefit changes	—
4. Offset for employee contributions	—
5. Projected earnings on plan assets	(24,066)
6. Other changes in plan net position	—
7. Rec. of outflow (inflow) due to liabilities	973
8. Rec. of outflow (inflow) due to assets	<u>(2,593)</u>
9. Total pension expense (income)	<u>\$ 32,000</u>

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 5. DEFINED BENEFIT PENSION PLAN (Continued)

Summary of Balance Sheet Items

	(A)	(B)	(C)	(D)
	Net Pension (Liability)	Deferred Outflow of Resources	Deferred (Inflow) of Resources	Total Assets (A)+(B)+(C)
1. Balance at 12/31/22	(\$ 189,153)	\$ 120,024	(\$ 127,926)	(\$ 197,055)
2. Contributions during measuring period	48,213			48,213
3. Pension expense	(33,620)	(54,554)	56,174	(32,000)
4. Addition to deferred outflows	(49,160)	49,160		—
5. Addition to deferred inflows	<u>15,924</u>		<u>(15,924)</u>	<u>—</u>
6. Balance at 12/31/23	<u>(\$ 207,796)</u>	<u>\$ 114,630</u>	<u>(\$ 87,676)</u>	<u>(\$ 180,842)</u>

GASB 68 Pension Expenses and Deferred Outflows/Inflows

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Net deferred Outflow of Resources.
2024	\$ 9,828
2025	5,786
2026	12,949
2027	(1,609)
2028	—
Thereafter	<u>—</u>
Total	<u>\$ 26,954</u>

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 6. RETIREMENT PLAN (457 PLAN)

The District established a 457 (b) plan. All new hires of the District are eligible for the matching provision of the plan while current employees, eligible for the defined pension plans, may invest in the plan but are not eligible for the matching provision. Those new hires eligible for the matching provision of the plan are not eligible for the District's defined benefit plan. District employer matching contributions to the plan totaled \$20,607 for the year ending December 31, 2023.

NOTE 7. RISK MANAGEMENT

During the course of normal business operations, the District is exposed to various risks of loss from catastrophic occurrences. The District has purchased third party insurance, with a deductible of \$500, to limit the risk of catastrophic loss.

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Required Supplementary Information
Schedule of Investment Returns**

<u>FY ending December 31,</u>	<u>Annual Money-weighted Rate of Return</u>
2014	7.4%
2015	-0.2%
2016	6.3%
2017	10.4%
2018	-3.3%
2019	16.0%
2020	11.5%
2021	13.6%
2022	-16.1%
2023	10.8%

The amounts shown are net of investment expenses.

The actuary calculated these rates with the information that was provided, therefore, these rates are annual money-weighted. Monthly money-weighted returns are not available, and the difference between the above and monthly money-weighted returns is estimated to be insignificant.

Schedules of Required Supplementary Information
Schedule of Changes in the Employers' Net Pension Liability and Related Ratios

Plan Year ending December 31	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability										
Service Cost	22,171	43,496	42,317	38,701	60,268	63,147	57,857	84,332	78,657	72,178
Interest	35,515	39,672	40,994	35,186	59,933	87,176	94,971	109,857	117,383	103,920
Benefit Changes	0	0	0	0	0	0	0	0	0	0
Difference between Actual & Expected Experience	49,160	-38,249	-6,063	-6,217	-72,848	471	12,944	-36,375	-41,355	33,664
Assumption changes	0	0	0	25,753	0	0	0	31,000	0	0
Benefit Payments	-5,866	-190,526	-5,866	-5,866	-828,703	-308,269	-268,408	-540,773	-5,866	-5,866
Net Change in Total Pension Liability	100,980	-145,607	71,382	87,557	-781,350	-157,475	-102,636	-351,959	148,819	203,896
Total Pension Liability - Beginning	538,238	683,845	612,463	524,906	1,306,256	1,463,731	1,566,367	1,918,326	1,769,507	1,565,611
Total Pension Liability - Ending	639,218	538,238	683,845	612,463	524,906	1,306,256	1,463,731	1,566,367	1,918,326	1,769,507

Plan Fiduciary Net Position	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contributions - Employee	0	0	0	0	0	0	0	0	0	0
Contributions - Employer	48,213	61,836	65,813	62,189	100,170	92,103	90,405	119,540	121,814	115,687
Net Investment Income	39,990	-79,505	63,275	41,867	96,497	-36,915	123,674	88,337	-3,756	99,633
Benefit Payments	-5,866	-190,526	-5,866	-5,866	-828,703	-308,269	-268,408	-540,773	-5,866	-5,866
Administrative Expense	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Net Change in Plan Net Position	82,337	-208,195	123,222	98,190	-632,036	-253,081	-54,329	-332,896	112,192	209,454
Plan Fiduciary Net Position - Beginning	349,085	557,280	434,058	335,868	967,904	1,220,985	1,275,314	1,608,210	1,496,018	1,286,564
Plan Fiduciary Net Position - Ending	431,422	349,085	557,280	434,058	335,868	967,904	1,220,985	1,275,314	1,608,210	1,496,018

Net Pension Liability - Ending	207,796	189,153	126,565	178,406	189,038	338,352	242,746	291,053	310,116	273,489
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.49%	64.86%	81.49%	70.87%	63.99%	74.10%	83.42%	81.42%	83.83%	84.54%
Covered Employee Payroll	101,328	87,813	198,302	194,395	187,801	330,208	364,279	338,419	482,355	472,873
Net Pension Liability as a Percentage of Covered Employee Payroll	205%	215%	64%	92%	101%	102%	67%	86%	64%	58%

Notes to Schedule:
Changes of assumptions: At 1/1/2021, assumed mortality changed to Pub-G 2010 projected with MP 2020.
At 1/1/2017, assumed mortality changed from the RP 2000 Combined Healthy Mortality Table projected 20 years with Scale AA, to RP 2014 Mortality Table. At 1/1/2014, assumed mortality changed from the UP 1994 Table to the RP 2000 Combined Healthy Mortality Table projected 20 years with Scale AA. At 1/1/2014, assumed pre-retirement discount rate lowered from 7.0% to 6.5%.

Schedules of Required Supplementary Information
Schedule of Allen County Water District Contributions

Plan Year ending December 31	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	48,213	61,836	65,813	62,189	100,170	92,103	90,405	119,540	109,247	102,195
Contributions in relation to the actuarially determined contribution	48,213	61,836	65,813	62,189	100,170	92,103	90,405	119,540	121,814	115,687
Contribution deficiency (excess)	0	0	0	0	0	0	0	0	(12,567)	(13,492)
Covered-employee payroll	101,328	87,813	198,302	194,395	187,801	330,208	364,279	338,419	482,355	472,873
Contributions as a percentage of covered-employee payroll	47.6%	70.4%	33.2%	32.0%	53.3%	27.9%	24.8%	35.3%	25.3%	24.5%

Notes to Schedule:
Valuation date:

Actuarially determined contributions are calculated as of December 31 after the valuation date.

Actuarial cost method:
Amortization method:
Remaining amortization period:
Asset valuation method:
Assumed inflation:
Assumed salary increases:
Assumed investment return:
Assumed retirement age:
Mortality:

Entry Age Normal
 Level Dollar over 20 years from January 1, 2014.
 11 years at January 1, 2023
 Market Value
 2.50% per year. No cost-of-living-adjustments provided.
 4.50% per year
 6.50% before retirement, 5.50% after retirement (7.0% prior to January 1, 2014).
 Age 65.
 Pub-G 2010 with MP 2020. (1/1/2018 and 1/1/2017 used RP 2014, 1/1/2014 to 1/1/2017 used RP 2000 Combined Healthy Mortality Table, projected to the year 2020 with Scale AA, and used UP94 before 1/1/2014).



**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 Commissioners of Allen County Water District
Scottsville, Kentucky

We have audited, 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, the financial statements of Allen County Water District (the "District") as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 30, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2023-1 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

Allen County Water District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Kelly Moore, CPA". The signature is written in a cursive style.

Bowling Green, Kentucky
May 30, 2024

ALLEN COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2023

- **2023-1 Internal Control Over Financial Reporting**

Condition: The District does not have in place adequate procedures for internal control over financial reporting which would prevent or detect a potential material misstatement of the financial statements.

Criteria: The internal control structure should be such that misstatements in the District's financial statements are prevented, or detected and corrected, on a timely basis. Significant proposed audit adjustments were made to investments, capital assets, accounts payable, accrued liabilities, long-term debt, revenues and expenses.

Cause: Certain internal controls were not in place to prevent, or detect and correct, material misstatements.

Effect: Financial statements could contain material undetected errors.

Audit Recommendation: We recommend controls over the financial close process be reviewed to ensure significant amounts are reported correctly and timely in the District's financial statements.

Management Response: The District will, in the future, have a closer review of the year-end closing process and ask for technical guidance in areas that are needed in the year-end financial close process.