

**KNOTT COUNTY WATER AND SEWER DISTRICT  
Vicco, Kentucky**

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**FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

## CONTENTS

Independent Auditors' Report.....	1-3
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### **Financial Statements**

Statements of Net Position.....	4
Statements of Revenues, Expenses and Changes in Net Position.....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7-21

### **Required Supplementary Information**

Proportionate Share of the Net Pension Liability.....	22
Contributions – Pension.....	23
Proportionate Share of the Net OPEB Liability.....	24
Contributions – OPEB.....	25
Notes to Required Supplementary Information.....	26-28

### **Supplementary Information**

Budgetary Comparison Schedules.....	29-30
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	31-32
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance .....	33-35
Schedule of Expenditures of Federal Awards.....	36
Schedule of Findings and Questioned Costs .....	37-38



## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Knott County Water and Sewer District  
Vicco, Kentucky

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of the Knott County Water and Sewer District (the District) as of and for the year ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Knott County Water and Sewer District, as of December 31, 2023 and 2022, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for 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 Knott County Water and Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 pension and OPEB schedules on pages 22-25 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

**Supplementary Information**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 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.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
May 24, 2024

**KNOTT COUNTY WATER AND SEWER DISTRICT  
STATEMENTS OF NET POSITION**

December 31,

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,482,459	\$ 1,528,190
Customer accounts receivable, net	549,851	472,625
Prepaid expenses	71,884	-
Insurance proceeds receivable	-	1,000,000
Grant receivable	101,150	169,468
Total current assets	<u>3,205,344</u>	<u>3,170,283</u>
<b>Restricted assets</b>		
Cash and cash equivalents	501,562	543,990
Certificates of deposit and repurchase agreements	1,358,124	331,820
Total restricted assets	<u>1,859,686</u>	<u>875,810</u>
Net OPEB asset	<u>33,890</u>	<u>-</u>
<b>Capital assets</b>		
Land	170,381	170,381
Construction-in-progress	750,584	-
Utility plant and equipment, net	49,166,222	50,152,894
Capital assets, net	<u>50,087,187</u>	<u>50,323,275</u>
Total assets	<u>55,186,107</u>	<u>54,369,368</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension	289,173	201,803
Deferred outflows - OPEB	166,702	201,400
Total deferred outflows of resources	<u>455,875</u>	<u>403,203</u>
Total assets and deferred outflows of resources	<u>\$ 55,641,982</u>	<u>\$ 54,772,571</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 109,208	\$ 268,079
Accrued compensation	24,700	22,793
Payroll liabilities	35,182	42,057
Accrued interest	508	508
Other current liabilities	1,030,920	347,283
Current portion of long-term debt	436,642	59,981
Total current liabilities	<u>1,637,160</u>	<u>740,701</u>
<b>Noncurrent liabilities</b>		
Net pension liability	1,575,124	1,599,636
Net OPEB liability	-	436,620
Notes payable	79,599	591,189
Total long-term liabilities	<u>1,654,723</u>	<u>2,627,445</u>
Total liabilities	<u>3,291,883</u>	<u>3,368,146</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	170,127	14,245
Deferred inflows - OPEB	535,545	157,070
Total deferred inflows of resources	<u>705,672</u>	<u>171,315</u>
<b>NET POSITION</b>		
Net investment in capital assets	49,570,946	49,672,105
Restricted	1,773,850	456,628
Unrestricted	299,631	1,104,377
Total net position	<u>51,644,427</u>	<u>51,233,110</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 55,641,982</u>	<u>\$ 54,772,571</u>

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

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
for the years ended December 31,

	<b>2023</b>	<b>2022</b>
<b>OPERATING INCOME</b>		
Water service	\$ 3,127,355	\$ 3,330,106
Sewer service	128,900	111,367
Penalties	41,974	35,283
Insurance proceeds	-	1,000,000
Grant income	1,709,931	308,166
Miscellaneous income	4,169	8,395
Reconnection and collection fees	<u>819</u>	<u>468</u>
Total operating income	<u>5,013,148</u>	<u>4,793,785</u>
<b>OPERATING EXPENSES</b>		
Salaries and fringe benefits	1,255,735	1,248,440
Commissioners	25,000	23,000
Office and advertising expense	15,312	16,035
Water consumption	114,617	114,916
Electricity	554,400	628,418
Telephone	21,107	18,941
Travel and training	11,712	4,739
Rents	28,953	6,266
Contractual fees	735,683	367,105
Vehicle expense	118,107	104,447
Operating supplies and maintenance	881,260	1,300,763
Licenses, permits, dues, and fees	12,114	11,321
Insurance and bonds	<u>82,207</u>	<u>67,940</u>
Total operating expense	<u>3,856,207</u>	<u>3,912,331</u>
Operating income before depreciation	1,156,941	881,454
Depreciation expense	<u>1,520,868</u>	<u>1,411,280</u>
<b>OPERATING (LOSS)</b>	(363,927)	(529,826)
Non-operating income (expenses)		
Interest income	26,526	9,198
Gain on sale of capital assets	11,000	3,919
Interest expense	<u>(42,648)</u>	<u>(10,350)</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(369,049)	(527,059)
Capital contributions		
Tap fees	29,782	22,746
Contributed capital	<u>750,584</u>	<u>189,468</u>
<b>CHANGE IN NET POSITION</b>	411,317	(314,845)
Net position, beginning of year	<u>51,233,110</u>	<u>51,547,955</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 51,644,427</u>	<u>\$ 51,233,110</u>

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

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
for the years ended December 31,

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 3,221,822	\$ 3,392,822
Payment to suppliers	(2,799,265)	(2,389,057)
Payment for employee services and benefits	(1,299,040)	(1,164,841)
Grant proceeds	2,624,392	308,166
Insurance proceeds	1,000,000	-
Other receipts	<u>4,169</u>	<u>8,395</u>
Net cash provided by operating activities	<u>2,752,078</u>	<u>155,485</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(703,665)	(109,252)
Contributed capital and tap fees	29,782	22,746
Proceeds on sale of capital assets	11,000	3,919
Proceeds from issuance of debt	500,000	450,000
Principal paid on capital debt	(634,929)	(58,293)
Interest paid on capital debt	<u>(42,647)</u>	<u>(10,350)</u>
Net cash provided (used) by financing activities	<u>(840,459)</u>	<u>298,770</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit and repurchase agreements	(1,000,000)	-
Interest income	<u>222</u>	<u>227</u>
Net cash provided (used) by investing activities	<u>(999,778)</u>	<u>227</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	911,841	454,482
Cash and cash equivalents at beginning of year	<u>2,072,180</u>	<u>1,617,698</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 2,984,021</u>	<u>\$ 2,072,180</u>
<b>Reconciliation of operating (loss) to net cash provided by operating activities:</b>		
Operating (loss)	\$ (363,927)	\$ (529,826)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	1,520,868	1,411,280
Net changes in pension liability	44,000	60,470
Net changes in OPEB liability	(57,337)	45,780
Changes in assets and liabilities:		
(Increase) decrease in receivables	991,092	(1,084,402)
(Increase) decrease in prepaid expenses	(71,884)	21,876
Increase (decrease) in accounts payable	(158,871)	227,590
Increase (decrease) in payroll and other liabilities	(4,968)	8,369
Increase (decrease) in other current liabilities	<u>853,105</u>	<u>(5,652)</u>
Net cash provided by operating activities	<u>\$ 2,752,078</u>	<u>\$ 155,485</u>
Supplemental disclosure of cash flow information:		
Non-cash capital and related financing information:		
Fair value of contributed capital assets	<u>\$ 86,150</u>	<u>\$ 169,468</u>

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



**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

**Nature of Activities**

Knott County Water and Sewer District (the District) was created by the Knott County Fiscal Court on February 10, 1999 to be governed and operated under rules and procedures established under Kentucky Revised Statutes (KRS) Chapter 74, relating to water districts and KRS Chapter 220 relating to sanitation districts. The entity is expanding its operating activities into parts of Knott County not presently served with water and sewer utility services.

**Basis of Presentation**

The Governmental Accounting Standards Board (GASB) Codification creates a framework for basic financial statements that report the government's financial activities. Financial statements include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Knott County Water and Sewer District is considered a special purpose government engaged in a business-type activity. Therefore, no governmental type funds are recognized and instead, proprietary fund financial statements are presented.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

**Basis of Accounting**

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. For its water and sewer enterprise operations, the District uses the full-accrual basis of accounting where revenues are recorded when earned and expenses are recognized when incurred.

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

**Change in Accounting Policy**

In June 2017, the GASB issued Statement No. 87, *Leases* which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In addition, GASB 87 requires the lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District implemented GASB 87 during the year ending December 31, 2022. These changes were incorporated in the District's December 31, 2022, financial statements and had no effect on the net position of fund balances of the District.

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

**Change in Accounting Policy (continued)**

Effective January 1, 2023, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-based Information Technology Arrangements*. GASB Statement No. 96 requires recognition of a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability for subscription-based information technology arrangements (SBITA) that were previously classified as operating expenses. It establishes uniform guidance for SBITA accounting based on the foundational principle that SBITA are financings of the right to use vendor-provided information technology assets. These changes had no effect on the financial statements.

**Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**Capital Assets and Depreciation**

Capital assets are stated at historical cost. Donated assets are valued at their fair market value on the date of donation. Capital assets costing over \$1,500 are recorded and depreciated using the straight-line method of accounting over the respective assets useful lives as follows:

Equipment	5-20 years
Transmission lines	30-63 years
Water wells, structures and improvements	15-63 years

**Allowance for Doubtful Accounts**

Knott County Water and Sewer District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimates of probable losses. The allowance for doubtful accounts was estimated at \$35,000 and \$25,000 as of December 31, 2023 and 2022, respectively.

**Net Position**

The District's financial statements incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets", consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Restricted Net Position**

Restricted net position reflects funds held in various reserve accounts to meet the covenants as may be specified and defined in the bond and note indentures, or as restrictions imposed by grantors. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for utility services provided. In addition, the District reports grant income and insurance proceeds that reimburse operating expenses, such as salaries, equipment usage, repairs, and other non-capital items as operating income. Non-operating includes interest income/expense, gain/loss on disposal of assets and refunds to customers.

**Materials and Supplies**

Purchases of materials and supplies are expensed when purchased and are not inventoried and reflected in the statement of net position. Generally, supplies are purchased as needed. This departure from generally accepted accounting principles (GAAP) is not considered material to the financial statements.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**Estimates**

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

**Management's Review of Subsequent Events**

The District has evaluated and considered the need to recognize or disclose subsequent events through May 24, 2024, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2023, have not been evaluated by the District.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**2. CASH AND INVESTMENTS**

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The District's deposits at December 31, 2023 and 2022, were under collateralized by \$1,374,071 and \$1,145,167, respectively. The bank balances of the District's deposits were \$3,860,586 and \$2,646,785 at December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, \$2,501,058 and \$1,001,618, respectively, of the District's deposits were covered by collateral held by the custodial banks in the District's name. As of December 31, 2023 and 2022, \$750,000 and \$500,000 of the District's deposits were covered by Federal Depository Insurance, respectively. The balance of the District's repurchase agreement as of December 31, 2023 was \$764,543. The repurchase agreement is not covered by Federal Depository Insurance, however, the District's repurchase agreement is for a U.S. Treasury note.

**Statement of Cash Flows**

The statement of cash flows includes as cash and cash equivalents the following as of December 31.:

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 2,482,459	\$ 1,528,190
Restricted cash and cash equivalents	<u>501,562</u>	<u>543,990</u>
	<u>\$ 2,984,021</u>	<u>\$ 2,072,180</u>

Certificates of deposit and repurchase agreement – As of December 31, 2023 and 2022, the District held certificates of deposit with a total book value of \$593,611 and \$331,820, respectively. The certificate of deposit held at Bank of Hindman has an interest rates of 2.75% and matures on May 2, 2024. The certificate of deposit held at Community Trust Bank had an interest rates of 5.25% and matures on March 22, 2024. In addition, the District obtained a repurchase agreement on August 21, 2023. The repurchase agreement held at Community Trust Bank had an interest rate of 4.75% and matures on August 22, 2024.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**3. CAPITAL ASSETS**

The following is a summary of changes in capital assets for the District at December 31, 2023:

	<b>Balance 12/31/22</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12/31/23</b>
<b>Capital Assets – Water</b>				
Not Depreciated				
Land and land rights	\$ 117,294	\$ -	\$ -	\$ 117,294
Construction-in-progress	-	750,584	-	750,584
Depreciated				
Water plant and transmission lines	58,208,960	358,103	-	58,567,063
Vehicles	483,364	92,914	(33,170)	543,108
Operating equipment	367,482	32,835	-	400,317
Office furniture and equipment	190,788	-	-	190,788
Subtotal	<u>59,367,888</u>	<u>1,234,436</u>	<u>(33,170)</u>	<u>60,569,154</u>
Accumulated depreciation – Water				
Water plant and transmission lines	14,642,714	1,246,428	-	15,889,142
Vehicles	364,603	37,700	(33,170)	369,133
Operating equipment	199,556	33,050	-	232,606
Office furniture and equipment	128,143	6,892	-	135,035
Subtotal	<u>15,335,016</u>	<u>1,324,070</u>	<u>(33,170)</u>	<u>16,625,916</u>
Total – Water	<u>44,032,872</u>	<u>(89,634)</u>	<u>-</u>	<u>43,943,238</u>
<b>Capital Assets – Sewer</b>				
Not depreciated				
Land and land rights	53,087	-	-	53,087
Depreciated				
WWTPs and collection systems	7,649,803	-	-	7,649,803
Operating equipment	78,968	50,344	-	129,312
Subtotal	<u>7,781,858</u>	<u>50,344</u>	<u>-</u>	<u>7,832,202</u>
Accumulated depreciation – Sewer				
Vehicles	1,428,743	191,969	-	1,620,712
Operating equipment	62,712	4,829	-	67,541
Subtotal	<u>1,491,455</u>	<u>196,798</u>	<u>-</u>	<u>1,688,253</u>
Total – Sewer	<u>6,290,403</u>	<u>(146,454)</u>	<u>-</u>	<u>6,143,949</u>
<b>Total capital assets, net</b>	<u>\$ 50,323,275</u>	<u>\$ (236,088)</u>	<u>\$ -</u>	<u>\$ 50,087,187</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**3. CAPITAL ASSETS (CONTINUED)**

The following is a summary of changes in capital assets for the District at December 31, 2022:

	<b>Balance 12/31/21</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12/31/22</b>
<b>Capital Assets – Water</b>				
Not Depreciated				
Land and land rights	\$ 117,294	\$ -	\$ -	\$ 117,294
Construction-in-progress	1,724,165	169,468	(1,893,633)	-
Depreciated				
Water plant and transmission lines	56,315,327	1,893,633	-	58,208,960
Vehicles	533,126	-	(49,762)	483,364
Operating equipment	275,522	91,960	-	367,482
Office furniture and equipment	178,992	11,796	-	190,788
Subtotal	<u>59,144,426</u>	<u>2,166,857</u>	<u>(1,943,395)</u>	<u>59,367,888</u>
Accumulated depreciation – Water				
Water plant and transmission lines	13,474,836	1,167,878	-	14,642,714
Vehicles	380,649	33,717	(49,763)	364,603
Operating equipment	182,125	17,431	-	199,556
Office furniture and equipment	122,125	6,018	-	128,143
Subtotal	<u>14,159,735</u>	<u>1,225,044</u>	<u>(49,763)</u>	<u>15,335,016</u>
Total – Water	<u>44,984,691</u>	<u>941,813</u>	<u>(1,893,632)</u>	<u>44,032,872</u>
<b>Capital Assets – Sewer</b>				
Not depreciated				
Land and land rights	33,291	19,796	-	53,087
Depreciated				
WWTPs and collection systems	7,644,103	5,700	-	7,649,803
Operating equipment	78,968	-	-	78,968
Subtotal	<u>7,756,362</u>	<u>25,496</u>	<u>-</u>	<u>7,781,858</u>
Accumulated depreciation – Sewer				
Vehicles	1,247,333	181,410	-	1,428,743
Operating equipment	57,886	4,826	-	62,712
Subtotal	<u>1,305,219</u>	<u>186,236</u>	<u>-</u>	<u>1,491,455</u>
Total – Sewer	<u>6,451,143</u>	<u>(160,740)</u>	<u>-</u>	<u>6,290,403</u>
<b>Total capital assets, net</b>	<u>\$ 51,435,834</u>	<u>\$ 781,073</u>	<u>\$ (1,893,632)</u>	<u>\$ 50,323,275</u>

Total depreciation expense is allocated as follows for the years ended December 31,:

	<b>2023</b>	<b>2022</b>
Water operations	\$ 1,324,070	\$ 1,225,044
Sewer operations	<u>196,798</u>	<u>186,236</u>
	<u>\$ 1,520,868</u>	<u>\$ 1,411,280</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**4. OTHER CURRENT LIABILITIES**

Other current liabilities consisted of the following at December 31,:

	<b>2023</b>	<b>2022</b>
Customer deposit payable	\$ 156,936	\$ 152,324
Engineering contract payable	-	169,468
Deferred revenue	856,143	10,000
Utility tax payable	15,231	14,598
Sales tax payable	<u>2,610</u>	<u>893</u>
Total other current liabilities	<u>\$ 1,030,920</u>	<u>\$ 347,283</u>

**5. LONG-TERM DEBT**

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31,:

<b>Bonds and Notes</b>	<b>2023</b>	<b>2022</b>
Bank of Hindman Loan - \$302,162, direct borrowing note dated 3/5/21, was issued to consolidate and pay off existing loans and bonds, with payments through 2026, bearing interest at a rate of 2.75%.	\$ 141,241	\$ 201,170
Bank of Hindman LOC - \$950,000, draw on the \$2 million line of credit was issued in 2022 and 2023, to pay for costs related to flood damage incurred in 2022, with payments through 2024, bearing interest at a rate of 4.50%	<u>375,000</u>	<u>450,000</u>
Total	516,241	651,170
Less: current portion of debt	<u>(436,642)</u>	<u>(59,981)</u>
Long-term debt	<u>\$ 79,599</u>	<u>\$ 591,189</u>

The annual requirements to amortize notes from direct borrowings outstanding as of December 31, 2023 are as follows:

	<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest and Fees</b>	<b>Payment</b>
	2024	\$ 436,642	\$ 7,336	\$ 443,978
	2025	63,369	1,390	64,759
	2026	<u>16,230</u>	<u>1,390</u>	<u>17,620</u>
		<u>\$ 516,241</u>	<u>\$ 10,116</u>	<u>\$ 526,357</u>

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

	<b>December 31, 2022</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2023</b>	<b>Due Within One Year</b>
Net pension liability	\$ 1,599,636	\$ -	\$ (24,512)	\$ 1,575,124	\$ -
Net OPEB liability	436,620	-	(436,620)	-	-
Notes payable	<u>651,170</u>	<u>500,000</u>	<u>(634,929)</u>	<u>516,241</u>	<u>436,642</u>
	<u>\$ 2,687,426</u>	<u>\$ 500,000</u>	<u>\$ (1,096,061)</u>	<u>\$ 2,091,365</u>	<u>\$ 436,642</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**5. LONG-TERM DEBT (CONTINUED)**

For the year ended December 31, 2023 the net OPEB liability is now presented as a net OPEB asset on the Statement of Net Position.

The following is a summary of changes in long-term debt, net pension liability, and OPEB liability for the year ended December 31, 2022:

	December 31, 2021	Additions	Retirements	December 31, 2022	Due Within One Year
Net pension liability	\$ 1,385,139	\$ 214,497	\$ -	\$ 1,599,636	\$ -
Net OPEB liability	415,799	20,821	-	436,620	-
Notes payable	<u>259,463</u>	<u>450,000</u>	<u>(58,293)</u>	<u>651,170</u>	<u>59,981</u>
	<u>\$ 2,060,401</u>	<u>\$ 685,318</u>	<u>\$ (58,293)</u>	<u>\$ 2,687,426</u>	<u>\$ 59,981</u>

**6. RETIREMENT PLAN**

The Knott County Water and Sewer District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority's website.

*Plan Description* – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

*Contributions* – For the year ended December 31, 2023, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2023, participating employers contributed 26.79% through June 30<sup>th</sup> and 23.34% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 7. For the year ended December 31, 2022, plan members contributed 23.40% through June 30<sup>th</sup> and 23.34% thereafter to the pension for non-hazardous job classifications. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.



**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**6. RETIREMENT PLAN (CONTINUED)**

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$185,799 for the year ended December 31, 2023, or 100% of the required contribution. The District contributed \$163,462 for the year ended December 31, 2022, or 100% of the required contribution.

*Benefits* – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old and 1 month of service
	Reduced retirement	At least 5 years service and 55 years old or 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 to 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 to 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' 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 the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 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.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2023, the District reported a liability of \$1,575,124, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 and was rolled forward using generally accepted actuarial procedures. 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 June 30, 2023, the District's proportion was .02455 percent, which was an increase of .0024 percent from its proportion measured as of June 30, 2022.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**6. RETIREMENT PLAN (CONTINUED)**

For the year ended December 31, 2023, the District recognized pension expense of \$219,976. For the year ended December 31, 2022, the District recognized pension expense of \$214,630. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 81,541	\$ 4,280
Changes of assumptions	-	144,361
Net difference between projected and actual earnings on Plan investments	-	21,486
Changes in proportion and differences between District contributions and proportionate share of contributions	123,035	-
District contributions subsequent to the measurement date	<u>84,597</u>	<u>-</u>
 Total	 <u>\$ 289,173</u>	 <u>\$ 170,127</u>

The \$84,597 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2023 will be recognized in pension expense as follows:

**Year ending December 31,**

2024	\$ 23,661
2025	\$ (9,128)
2026	\$ 35,163
2027	\$ (15,247)

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2023, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.50%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2023 valuation was based on the results of an actuarial experience study for the period July 1, 2018 - June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**6. RETIREMENT PLAN (CONTINUED)**

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2023, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
<b>Total</b>	<b>100.00%</b>	<b>5.75%</b>
<b>Long term inflation assumption</b>		<b>2.50%</b>
<b>Expected nominal return for portfolio</b>		<b>8.25%</b>

*Discount Rate* – The discount rate used to measure the total pension liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the closed 30-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.50 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	<b>Discount rate</b>	<b>District's proportionate share of net pension liability</b>
1% decrease	5.50%	\$ 1,988,690
Current discount rate	6.50%	\$ 1,575,124
1% increase	7.50%	\$ 1,231,436

*Payable to the Pension Plan* – At December 31, 2023 and 2022, the District reported a payable of \$20,049 and \$24,380, respectively, for the outstanding amount of contributions payable to the pension plan. The payable includes both the pension and insurance contribution allocation.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Plan Description* – As more fully described in Note 6, the District participates in the County Employees’ Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions* – As more fully described in Note 6, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2023, the employer’s contribution was 3.39% through June 30<sup>th</sup> and 0.00% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

For the year ended December 31, 2023, the District contributed \$12,882, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2022, the District contributed \$26,494, or 100% of the required contribution for non-hazardous job classifications.

*Benefits* – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2023, the District reported an asset for its proportionate share of the net OPEB asset of \$33,890. The net OPEB asset was measured as of June 30, 2023, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2022 and was rolled forward using generally accepted actuarial procedures.

The District's proportion of the net OPEB asset 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 participating entities, actuarially determined. The District's proportionate share at June 30, 2023 was .02455 percent, which was an increase of .0024 percent from its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the District recognized OPEB expense of \$(39,554). For the year ended December 31, 2022, the District recognized OPEB expense of \$82,031. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 23,626	\$ 481,202
Changes of assumptions	66,692	46,478
Net difference between projected and actual earnings on Plan investments	-	7,865
Changes in proportion and differences between District contributions and proportionate share of contributions	65,315	-
District contributions subsequent to the measurement date	<u>11,069</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 166,702</u></b>	<b><u>\$ 535,545</u></b>

The \$11,069 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2024. This includes an adjustment of \$11,069 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

**Year ending December 31,**

2024	\$ (84,845)
2025	\$ (116,353)
2026	\$ (94,558)
2027	\$ (84,156)

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.50%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.50%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 8.50% at January 1, 2025, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2020 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2023 valuation was based on the results of an actuarial experience study for the period July 1, 2018 - June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2022) to the plan’s fiscal year ending June 30, 2023.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
<b>Total</b>	<b>100.00%</b>	<b>5.75%</b>
<b>Long term inflation assumption</b>		<b>2.50%</b>
<b>Expected nominal return for portfolio</b>		<b>8.25%</b>

*Discount Rate* – The discount rate used to measure the total OPEB asset as of June 30, 2023, was 5.93%, for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 22-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2023, the discount rate determination used an expected rate of return of 6.50%, and a municipal bond rate of 3.86%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index”. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*Sensitivity of the District's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate* – The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<b>Discount rate</b>	<b>Proportionate share of net OPEB liability (asset)</b>
1% decrease	4.93%	\$ 63,598
Current discount rate	5.93%	\$ (33,890)
1% increase	6.93%	\$ (115,524)

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* – The following presents the District's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>Proportionate share of net OPEB liability (asset)</b>
1% decrease	\$ (108,623)
Current trend rate	\$ (33,890)
1% increase	\$ 57,913

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

**8. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

**9. CONSTRUCTION COMMITMENTS**

The District regularly engages in construction projects to expand water lines and access throughout its service area. The District generally applies for grant money to fund these projects. As of December 31, 2023 and 2022, the District had construction in progress of \$750,584 and \$0, respectively, related to various projects.

**10. RECLASSIFICATIONS**

Cash and cash equivalents and restricted cash and cash equivalents for the year ended December 31, 2022, have been reclassified from the amounts presented in the prior audited financial statements. Reclassification of prior year balances did not impact the total cash and cash equivalents, the change in net position, or ending net position as of December 31, 2022.

**REQUIRED SUPPLEMENTARY INFORMATION**



**KNOTT COUNTY WATER AND SEWER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last Eight Years**

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Reporting Year End	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022	December 31, 2023
(Measurement Date)	(June 30, 2016)	(June 30, 2017)	(June 30, 2018)	(June 30, 2019)	(June 30, 2020)	(June 30, 2021)	(June 30, 2022)	(June 30, 2023)
District's proportion of the net pension liability	0.01672%	0.01727%	0.01761%	0.01886%	0.01932%	0.02173%	0.02213%	0.02455%
District's proportionate share of the net pension liability (asset)	\$ 823,295	\$ 1,010,749	\$ 1,072,442	\$ 1,326,432	\$ 1,481,981	\$ 1,385,139	\$ 1,599,636	\$ 1,575,124
District's covered employee payroll	\$ 442,662	\$ 460,392	\$ 476,238	\$ 514,991	\$ 568,340	\$ 626,135	\$ 703,748	\$ 808,706
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	185.99%	219.54%	225.19%	257.56%	260.76%	221.22%	227.30%	194.77%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	53.32%	53.54%	50.45%	47.81%	57.33%	52.42%	57.48%

Notes:

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
CONTRIBUTIONS - PENSION  
Last Eight Calendar Years**

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	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Contractually required employer contribution	\$ 60,741	\$ 63,249	\$ 77,086	\$ 92,829	\$ 111,460	\$ 127,901	\$ 163,462	\$ 185,799
Contributions relative to contractually required employer contribution	<u>60,741</u>	<u>63,249</u>	<u>77,086</u>	<u>92,829</u>	<u>111,460</u>	<u>127,901</u>	<u>163,462</u>	<u>185,799</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 435,595	\$ 447,451	\$ 504,764	\$ 530,184	\$ 614,689	\$ 660,471	\$ 759,994	\$ 839,523
Employer contributions as a percentage of covered-employee payroll	13.94%	14.14%	15.27%	17.51%	18.13%	19.37%	21.51%	22.13%

Notes:

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
Last Eight Years**

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<b>Reporting Year End</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>December 31, 2018</b>	<b>December 31, 2019</b>	<b>December 31, 2020</b>	<b>December 31, 2021</b>	<b>December 31, 2022</b>	<b>December 31, 2023</b>
<b>(Measurement Date)</b>	<b>(June 30, 2016)</b>	<b>(June 30, 2017)</b>	<b>(June 30, 2018)</b>	<b>(June 30, 2019)</b>	<b>(June 30, 2020)</b>	<b>(June 30, 2021)</b>	<b>(June 30, 2022)</b>	<b>(June 30, 2023)</b>
District's proportion of the net OPEB liability	0.01727%	0.01727%	0.01761%	0.01886%	0.01932%	0.02173%	0.02213%	0.02455%
District's proportionate share of the net OPEB liability (asset)	\$ 272,291	\$ 347,146	\$ 312,627	\$ 317,149	\$ 466,447	\$ 415,799	\$ 436,620	\$ (33,890)
District's covered employee payroll	\$ 442,662	\$ 460,392	\$ 476,238	\$ 514,991	\$ 568,340	\$ 626,135	\$ 703,748	\$ 808,706
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	61.51%	75.40%	65.65%	61.58%	82.07%	66.41%	62.04%	-4.19%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%	60.95%	104.23%

**Notes:**

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
CONTRIBUTIONS - OPEB  
Last Eight Calendar Years**

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	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Contractually required employer contribution	\$ 21,446	\$ 20,757	\$ 25,543	\$ 26,182	\$ 27,490	\$ 33,429	\$ 26,494	\$ 12,882
Contributions relative to contractually required employer contribution	<u>21,446</u>	<u>20,757</u>	<u>25,543</u>	<u>26,182</u>	<u>27,490</u>	<u>33,429</u>	<u>26,494</u>	<u>12,882</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 435,595	\$ 447,451	\$ 504,764	\$ 530,184	\$ 614,689	\$ 660,471	\$ 759,994	\$ 839,523
Employer contributions as a percentage of covered-employee payroll	4.92%	4.64%	5.06%	4.94%	4.47%	5.06%	3.49%	1.53%

Notes:

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2023 and 2022**

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**1. GENERAL INFORMATION**

**Contributions**

Contractually required employer contributions reported on the Schedule of Contributions - Pensions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of Contributions - OPEB.

**Payroll**

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Proportionate Share of the Net OPEB Liability is for the corresponding measurement date of the net liabilities and differs from the District's calendar year payroll as reported on the Schedule of Contributions for Pension and OPEB.

**2. CHANGES OF ASSUMPTIONS**

**December 31, 2023 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for pension:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The Tier 3 cash balance interest crediting rate assumption was increased to 6.75% for the CERS pension funds.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for OPEB:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The initial healthcare trend rate for pre-65 was changed from 6.20% to 6.80%. The initial healthcare trend rate for post-65 was changed from 9.00% to 8.50%.

**December 31, 2022 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.30% to 6.2%. The initial healthcare trend rate for post-65 was changed from 6.30% to 9.00%.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2023 and 2022**

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**2. CHANGES OF ASSUMPTIONS (CONTINUED)**

**December 31, 2021 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

**December 31, 2020 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

**December 31, 2019 – Pension and OPEB**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

**December 31, 2018 – Pension and OPEB**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

**December 31, 2017 – Pension**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

**December 31, 2016 – Pension and OPEB**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2023 and 2022**

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**2. CHANGES OF ASSUMPTIONS (CONTINUED)**

**December 31, 2015 – Pension**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

**December 31, 2014 – Pension**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

**December 31, 2013 – Pension**

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

**SUPPLEMENTARY INFORMATION**



**KNOTT COUNTY WATER AND SEWER DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
for the year ended December 31, 2023**

	Original Budget	Appropriated Budget	Actual Amount	Variance with Final Budget Favorable (Unfavorable)
<b>OPERATING INCOME</b>				
Water service	\$ 3,450,000	\$ 3,450,000	\$ 3,127,355	\$ (322,645)
Sewer service	-	-	128,900	128,900
Penalties	-	-	41,974	41,974
Grant income	-	-	1,709,931	1,709,931
Miscellaneous income	75,000	75,000	4,169	(70,831)
Reconnection and collection fees	-	-	819	819
	<u>3,525,000</u>	<u>3,525,000</u>	<u>5,013,148</u>	<u>1,488,148</u>
<b>OPERATING EXPENSES</b>				
Salaries and fringe benefits	1,177,500	1,177,500	1,255,735	(78,235)
Commissioners	30,200	30,200	25,000	5,200
Office and advertising expense	750	750	15,312	(14,562)
Water consumption	112,000	112,000	114,617	(2,617)
Electricity	610,000	610,000	554,400	55,600
Telephone	19,000	19,000	21,107	(2,107)
Travel and training	7,000	7,000	11,712	(4,712)
Rents	1,000	1,000	28,953	(27,953)
Contractual fees	244,000	244,000	735,683	(491,683)
Vehicle expense	85,000	85,000	118,107	(33,107)
Operating supplies and maintenance	560,500	560,500	881,260	(320,760)
Licenses, permits, dues, and fees	11,500	11,500	12,114	(614)
Insurance and bonds	71,000	71,000	82,207	(11,207)
	<u>2,929,450</u>	<u>2,929,450</u>	<u>3,856,207</u>	<u>(926,757)</u>
Operating income (loss) before depreciation	595,550	595,550	1,156,941	561,391
Depreciation expense	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,520,868</u>	<u>(20,868)</u>
<b>OPERATING (LOSS)</b>	<b>(904,450)</b>	<b>(904,450)</b>	<b>(363,927)</b>	<b>540,523</b>
Non-operating income (expenses)				
Interest income	-	-	26,526	26,526
Gain on sale of assets	-	-	11,000	11,000
Interest expense	<u>(9,000)</u>	<u>(9,000)</u>	<u>(42,648)</u>	<u>(33,648)</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(913,450)</b>	<b>(913,450)</b>	<b>(369,049)</b>	<b>544,401</b>
Capital contributions				
Tap fees	-	-	29,782	29,782
Contributed capital	-	-	<u>750,584</u>	<u>750,584</u>
<b>CHANGE IN NET POSITION</b>	<b>\$ (913,450)</b>	<b>\$ (913,450)</b>	<b>\$ 411,317</b>	<b>\$ 1,324,767</b>

Note 1: Adjustments to account for the changes in the net pension and net OPEB liabilities resulted in a decrease in salaries and fringe benefits expense of \$13,339. Due to the uncertainty of the impact of the required net pension and OPEB liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension and OPEB liability.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
for the year ended December 31, 2022**

	Original Budget	Appropriated Budget	Actual Amount	Variance with Final Budget Favorable (Unfavorable)
<b>OPERATING INCOME</b>				
Water service	\$ 3,400,000	\$ 3,400,000	\$ 3,330,106	\$ (69,894)
Sewer service	-	-	111,367	111,367
Penalties	-	-	35,283	35,283
Insurance proceeds	-	-	1,000,000	1,000,000
Grant income	-	-	308,166	308,166
Miscellaneous income	75,000	75,000	8,395	(66,605)
Reconnection and collection fees	-	-	468	468
	<u>3,475,000</u>	<u>3,475,000</u>	<u>4,793,785</u>	<u>1,318,785</u>
Total operating income				
<b>OPERATING EXPENSES</b>				
Salaries and fringe benefits	1,007,000	1,007,000	1,248,440	(241,440)
Commissioners	30,200	30,200	23,000	7,200
Office and advertising expense	500	500	16,035	(15,535)
Water consumption	112,000	112,000	114,916	(2,916)
Electricity	560,000	560,000	628,418	(68,418)
Telephone	19,000	19,000	18,941	59
Travel and training	6,000	6,000	4,739	1,261
Rents	1,000	1,000	6,266	(5,266)
Contractual fees	282,500	282,500	367,105	(84,605)
Vehicle expense	60,000	60,000	104,447	(44,447)
Operating supplies and maintenance	472,000	472,000	1,300,763	(828,763)
Licenses, permits, dues, and fees	9,500	9,500	11,321	(1,821)
Insurance and bonds	66,000	66,000	67,940	(1,940)
	<u>2,625,700</u>	<u>2,625,700</u>	<u>3,912,331</u>	<u>(1,286,631)</u>
Total operating expense				
Operating income before depreciation	849,300	849,300	881,454	32,154
Depreciation expense	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,411,280</u>	<u>88,720</u>
<b>OPERATING (LOSS)</b>	(650,700)	(650,700)	(529,826)	120,874
Non-operating income (expenses)				
Interest income	-	-	9,198	9,198
Gain on sale of assets	-	-	3,919	3,919
Interest expense	<u>(8,000)</u>	<u>(8,000)</u>	<u>(10,350)</u>	<u>(2,350)</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(658,700)	(658,700)	(527,059)	131,641
Capital contributions				
Tap fees	-	-	22,746	22,746
Contributed capital	<u>-</u>	<u>-</u>	<u>189,468</u>	<u>189,468</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (658,700)</u>	<u>\$ (658,700)</u>	<u>\$ (314,845)</u>	<u>\$ 343,855</u>

Note 1: Adjustments to account for the changes in the net pension and net OPEB liabilities resulted in an increase in salaries and fringe benefits expense of \$106,250. Due to the uncertainty of the impact of the required net pension and OPEB liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension and OPEB liability.



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

Board of Commissioners  
Knott County Water and Sewer District  
Vicco, 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 Knott County Water and Sewer District (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Knott County Water and Sewer District's basic financial statements and have issued our report thereon dated May 24, 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001, that we consider to be a material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Knott County Water and Sewer 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*.

### **Knott County Water and Sewer District's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Knott County Water and Sewer District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Knott County Water and Sewer 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.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
May 24, 2024



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

Board of Commissioners  
Knott County Water and Sewer District  
Vicco, Kentucky

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

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

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

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

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

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

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

***Responsibilities of Management for Compliance***

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

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Knott County Water and Sewer District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists.

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Knott County Water and Sewer District's compliance with the requirements of each major federal program as a whole.

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

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

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

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

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

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

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

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

**RFH**

RFH, PLLC  
Lexington, Kentucky  
May 24, 2024

**KNOTT COUNTY WATER AND SEWER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
for the year ended December 31, 2023**

Grantor / Program Title	Federal AL Number	Grantor Number	Grant Award Period	Expenditures
<b><u>U.S. Department of Homeland Security:</u></b>				
Passed through the Commonwealth of Kentucky, Division of Emergency Management				
Disaster Grants - Public Assistance	97.036	SC 095 2300000507	07/26/22 - 06/30/34	\$ 1,516,961
Disaster Grants - Public Assistance	97.036	SC 095 2400000161	05/09/23 - 06/30/34	<u>10,269</u>
				<u>1,527,230</u>
<b><u>U.S. Department of Interior:</u></b>				
Passed through the Commonwealth of Kentucky, Division of Abandoned Mine Lands				
Abandoned Mine Land Reclamation	15.252	SC 128 2300000982	03/01/23 - 12/31/26	\$ 173,217
Abandoned Mine Land Reclamation	15.252	N/A	12/15/22 - 12/15/24	<u>30,000</u>
				<u>203,217</u>
<b>TOTAL FEDERAL AWARDS</b>				<b><u>\$ 1,730,447</u></b>

**Note 1 - Basis of Presentation**

This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**Note 2 - Indirect Cost Rates**

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

**Note 3 - Pass Through Funds**

The District did not pass through any funds to subrecipients.

**Note 4 - Disaster Grants - Public Assistance Funds**

The District received a total of \$2,256,664 in federal Disaster Grants - Public Assistance funding during the year ended December 31, 2023. Per program guidance, expenditures are reported on the schedule of expenditures of federal awards (SEFA) when the project has been approved by FEMA and the expenditures have been incurred. The expenditures reported on the 2023 SEFA for this grant include \$1,245,837 of payroll, equipment, materials, and contractor expenditures incurred in the year ended December 31, 2022, that were approved by FEMA during the year ended December 31, 2023. As of December 31, 2023, the District has received \$729,434 of grant funding for projects that have not been completed and approved by FEMA and are therefore not reported on the SEFA for the year ended December 31, 2023.



**KNOTT COUNTY WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended December 31, 2023**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

Noncompliance material to financial statements noted	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Federal Awards:

Internal control over major programs:

Material weaknesses identified	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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**Major Programs:**

<b>AL Number</b>	<b>Name of Federal Program or Cluster</b>
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
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Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued**  
**for the year ended December 31, 2023**

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**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

**2023-001 – Internal Control Over Financial Reporting and Audit Adjustments (Recurring) (Material)**

**Criteria:**

The District is required to have internal controls in place that enable it to record and process year-end journal entries, and prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

**Condition:**

During our audit, we identified material misstatements in cash and cash equivalents, accounts receivable, accounts payable, contributed capital, capital assets, and deferred revenue resulting from a lack of internal controls over year-end journal entries. In addition, management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements.

**Cause:**

The District failed to provide proper oversight of the period-end financial reporting and lacks personnel with the expertise to prepare its financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

**Effect:**

The District relied on auditor prepared accounting adjustments to ensure the financial records were properly stated in accordance with generally accepted accounting principles. In addition, the auditor prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

**Recommendation:**

We recommend management review the period-end financial reporting process and implement an additional analytical review and analysis of year end balances prior to the start of the audit. In addition, we recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements on the accrual basis of accounting.

**Response:**

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the adjustments and financial statements.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR AUDIT FINDINGS**

**Finding 2022-001 – Internal Control over Financial Reporting**

*Status: Repeated as finding 2023-001.*