

KNOTT COUNTY WATER AND SEWER DISTRICT
Vicco, Kentucky

FINANCIAL STATEMENTS
December 31, 2024 and 2023

CONTENTS

Independent Auditors' Report.....	1-3
-----------------------------------	-----

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	7-22

Required Supplementary Information

Proportionate Share of the Net Pension Liability.....	23
Contributions – Pension.....	24
Proportionate Share of the Net OPEB Liability.....	25
Contributions – OPEB.....	26
Notes to Required Supplementary Information.....	27-29

Supplementary Information

Budgetary Comparison Schedules.....	30-31
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>	32-33
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	34-36
Schedule of Expenditures of Federal Awards.....	37
Schedule of Findings and Questioned Costs	38-39

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 years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Knott County Water and Sewer District, as of December 31, 2024 and 2023, 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 opinions.

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 pages 23-26 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 stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2025, 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 District's internal control over financial reporting and compliance.



RFH, PLLC
Lexington, Kentucky
March 28, 2025

KNOTT COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION

December 31,

	2024	2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,322,724	\$ 2,482,459
Customer accounts receivable, net	460,492	549,851
Prepaid expenses	129,497	71,884
Grant receivable	582,383	101,150
Total current assets	<u>2,495,096</u>	<u>3,205,344</u>
Restricted assets		
Cash and cash equivalents	250,983	501,562
Certificates of deposit and repurchase agreements	1,398,050	1,358,124
Total restricted assets	<u>1,649,033</u>	<u>1,859,686</u>
Net OPEB asset	<u>46,108</u>	<u>33,890</u>
Capital assets		
Land	150,584	170,381
Construction-in-progress	1,646,406	750,584
Utility plant and equipment, net	48,989,886	49,166,222
Capital assets, net	<u>50,786,876</u>	<u>50,087,187</u>
Total assets	<u>54,977,113</u>	<u>55,186,107</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	293,081	289,173
Deferred outflows - OPEB	145,595	166,702
Total deferred outflows of resources	<u>438,676</u>	<u>455,875</u>
Total assets and deferred outflows of resources	<u>\$ 55,415,789</u>	<u>\$ 55,641,982</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 70,220	\$ 109,208
Accrued compensation	72,057	63,588
Payroll liabilities	42,145	35,182
Accrued interest	508	508
Other current liabilities	1,189,889	1,030,920
Current portion of long-term debt	63,369	436,642
Total current liabilities	<u>1,438,188</u>	<u>1,676,048</u>
Noncurrent liabilities		
Net pension liability	1,592,527	1,575,124
Notes payable	16,223	79,599
Total long-term liabilities	<u>1,608,750</u>	<u>1,654,723</u>
Total liabilities	<u>3,046,938</u>	<u>3,330,771</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	174,342	170,127
Deferred inflows - OPEB	437,388	535,545
Total deferred inflows of resources	<u>611,730</u>	<u>705,672</u>
NET POSITION		
Net investment in capital assets	50,707,284	49,570,946
Restricted	1,564,112	1,773,850
Unrestricted	(514,275)	260,743
Total net position	<u>51,757,121</u>	<u>51,605,539</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 55,415,789</u>	<u>\$ 55,641,982</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,

	2024	2023
OPERATING REVENUE		
Water service	\$ 3,138,579	\$ 3,127,355
Sewer service	118,431	128,900
Penalties	34,415	41,974
Grant income	557,577	1,709,931
Miscellaneous income	31,004	4,169
Reconnection and collection fees	<u>683</u>	<u>819</u>
Total operating revenue	<u>3,880,689</u>	<u>5,013,148</u>
OPERATING EXPENSES		
Salaries and fringe benefits	1,407,177	1,261,773
Commissioners	30,600	25,000
Office and advertising expense	16,898	15,312
Water consumption	205,221	114,617
Electricity	628,383	554,400
Telephone	30,853	21,107
Travel and training	7,277	11,712
Rents	-	28,953
Contractual fees	505,994	735,683
Vehicle expense	115,547	118,107
Operating supplies and maintenance	724,296	881,260
Licenses, permits, dues, and fees	15,265	12,114
Insurance and bonds	<u>110,841</u>	<u>82,207</u>
Total operating expense	<u>3,798,352</u>	<u>3,862,245</u>
Operating income before depreciation	82,337	1,150,903
Depreciation expense	<u>1,586,804</u>	<u>1,520,868</u>
OPERATING (LOSS)	(1,504,467)	(369,965)
Non-operating income (expenses)		
Interest income	40,149	26,526
Gain (loss) on sale of capital assets	(14,297)	11,000
Interest expense	<u>(6,229)</u>	<u>(42,648)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,484,844)	(375,087)
Capital contributions		
Tap fees	31,087	29,782
Contributed capital	<u>1,605,339</u>	<u>750,584</u>
CHANGE IN NET POSITION	151,582	405,279
Net position, beginning of year, as restated	<u>51,605,539</u>	<u>51,200,260</u>
NET POSITION, END OF YEAR	<u>\$ 51,757,121</u>	<u>\$ 51,605,539</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,

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,381,467	\$ 3,221,822
Payment to suppliers	(2,444,655)	(2,799,265)
Payment for employee services and benefits	(1,493,903)	(1,299,040)
Grant proceeds	172,725	2,624,392
Insurance proceeds	-	1,000,000
Other receipts	<u>31,004</u>	<u>4,169</u>
Net cash provided (used) by operating activities	<u>(353,362)</u>	<u>2,752,078</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(650,884)	(703,665)
Contributed capital and tap fees	31,087	29,782
Proceeds on sale of capital assets	5,500	11,000
Proceeds from issuance of debt	-	500,000
Principal paid on capital debt	(436,649)	(634,929)
Interest paid on capital debt	<u>(6,229)</u>	<u>(42,647)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,057,175)</u>	<u>(840,459)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit and repurchase agreements	-	(1,000,000)
Interest income	<u>223</u>	<u>222</u>
Net cash provided (used) by investing activities	<u>223</u>	<u>(999,778)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,410,314)	911,841
Cash and cash equivalents at beginning of year	<u>2,984,021</u>	<u>2,072,180</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,573,707</u>	<u>\$ 2,984,021</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (1,504,467)	\$ (369,965)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:		
Depreciation	1,586,804	1,520,868
Net changes in pension liability	17,710	44,000
Net changes in OPEB liability	(89,268)	(57,337)
Changes in assets and liabilities:		
(Increase) decrease in receivables	89,359	991,092
(Increase) decrease in prepaid expenses	(57,613)	(71,884)
Increase (decrease) in accounts payable	(38,988)	(158,871)
Increase (decrease) in payroll liabilities	6,963	(4,968)
Increase (decrease) in accrued compensation	8,469	6,038
Increase (decrease) in other current liabilities	<u>(372,331)</u>	<u>853,105</u>
Net cash provided (used) by operating activities	<u>\$ (353,362)</u>	<u>\$ 2,752,078</u>
Supplemental disclosure of cash flow information:		
Non-cash capital and related financing information:		
Fair value of contributed capital assets	<u>\$ 531,300</u>	<u>\$ 86,150</u>

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

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

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

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.

Effective January 1, 2024, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. The objective of GASB Statement No. 101 is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. These changes were incorporated in the District's December 31, 2024 and 2023 financial statements. See Note 10 for the effect on the beginning net position of the District as a result of implementing GASB Statement No. 101.

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

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 \$95,000 and \$35,000 as of December 31, 2024 and 2023, 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.

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.

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

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 March 28, 2025, 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, 2024, have not been evaluated by the District.

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

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, 2024 were fully collateralized. The bank balances of the District's deposits were \$2,264,511. The District's deposits were covered by Federal Depository Insurance of \$750,000, and by collateral held by the custodial banks in the District's name of \$1,514,511. The District's deposits at December 31, 2023 were under collateralized by \$1,374,071. The bank balances of the District's deposits were \$3,860,586. The District's deposits were covered by Federal Depository Insurance of \$750,000, and by collateral held by the custodial banks in the District's name of \$2,501,058. The balance of the District's repurchase agreement as of December 31, 2024 and 2023 was \$786,047 and \$764,543, respectively. 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,:

	2024	2023
Cash and cash equivalents	\$ 1,322,724	\$ 2,482,459
Restricted cash and cash equivalents	<u>250,983</u>	<u>501,562</u>
	<u>\$ 1,573,707</u>	<u>\$ 2,984,021</u>

Certificates of deposit and repurchase agreement – As of December 31, 2024 and 2023, the District held certificates of deposit with a total book value of \$612,003 and \$593,581, respectively. The certificate of deposit held at Bank of Hindman has an interest rates of 2.75% and matures on May 2, 2029. The certificate of deposit held at Community Trust Bank has an interest rate of 1.50% and matures on May 22, 2025. In addition, as of December 31, 2024 and 2023, the District held a repurchase agreement with a book value of \$786,047 and \$764,543, respectively. The repurchase agreement held at Community Trust Bank has an interest rate of 4.50% and matures on February 28, 2025.

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the District at December 31, 2024:

	Balance 12/31/23	Additions	Deductions	Balance 12/31/24
Capital Assets – Water				
Not Depreciated				
Land and land rights	\$ 117,294	\$ -	\$ -	\$ 117,294
Construction-in-progress	750,584	1,528,439	(632,617)	1,646,406
Depreciated				
Water plant and transmission lines	58,567,063	829,440	-	59,396,503
Vehicles	543,108	478,990	-	1,022,098
Operating equipment	400,317	2,350	-	402,667
Office furniture and equipment	190,788	5,250	-	196,038
Subtotal	<u>60,569,154</u>	<u>2,844,469</u>	<u>(632,617)</u>	<u>62,781,006</u>
Accumulated depreciation – Water				
Water plant and transmission lines	15,889,142	1,271,500	-	17,160,642
Vehicles	369,133	67,762	-	436,895
Operating equipment	232,606	35,641	-	268,247
Office furniture and equipment	135,035	7,393	-	142,428
Subtotal	<u>16,625,916</u>	<u>1,382,296</u>	<u>-</u>	<u>18,008,212</u>
Total – Water	<u>43,943,238</u>	<u>1,462,173</u>	<u>(632,617)</u>	<u>44,772,794</u>
Capital Assets – Sewer				
Not depreciated				
Land and land rights	53,087	-	(19,797)	33,290
Depreciated				
WWTPs and collection systems	7,649,803	37,725	-	7,687,528
Operating equipment	129,312	56,713	-	186,025
Subtotal	<u>7,832,202</u>	<u>94,438</u>	<u>(19,797)</u>	<u>7,906,843</u>
Accumulated depreciation – Sewer				
Vehicles	1,620,712	192,923	-	1,813,635
Operating equipment	67,541	11,585	-	79,126
Subtotal	<u>1,688,253</u>	<u>204,508</u>	<u>-</u>	<u>1,892,761</u>
Total – Sewer	<u>6,143,949</u>	<u>(110,070)</u>	<u>(19,797)</u>	<u>6,014,082</u>
Total capital assets, net	<u>\$ 50,087,187</u>	<u>\$ 1,352,103</u>	<u>\$ (652,414)</u>	<u>\$ 50,786,876</u>

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

3. CAPITAL ASSETS (CONTINUED)

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

	Balance 12/31/22	Additions	Deductions	Balance 12/31/23
Capital Assets – Water				
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>
Capital Assets – Sewer				
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>
Total capital assets, net	<u>\$ 50,323,275</u>	<u>\$ (236,088)</u>	<u>\$ -</u>	<u>\$ 50,087,187</u>

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

	2024	2023
Water operations	\$ 1,382,296	\$ 1,324,070
Sewer operations	<u>204,508</u>	<u>196,798</u>
	<u>\$ 1,586,804</u>	<u>\$ 1,520,868</u>

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

4. OTHER CURRENT LIABILITIES

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

	2024	2023
Customer deposit payable	\$ 162,600	\$ 156,936
Engineering contract payable	539,513	-
Deferred revenue	471,291	856,143
Utility tax payable	7,529	15,231
Sales tax payable	<u>8,956</u>	<u>2,610</u>
Total other current liabilities	<u>\$ 1,189,889</u>	<u>\$1,030,920</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,:

Bonds and Notes	2024	2023
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%.	\$ 79,592	\$ 141,241
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>-</u>	<u>375,000</u>
Total	79,592	516,241
Less: current portion of debt	<u>(63,369)</u>	<u>(436,642)</u>
Long-term debt	<u>\$ 16,223</u>	<u>\$ 79,599</u>

The annual requirements to amortize notes from direct borrowings outstanding as of December 31, 2024 are as follows:

Year Ending December 31,	Principal	Interest and Fees	Payment
2025	\$ 63,369	\$ 1,390	\$ 64,759
2026	<u>16,223</u>	<u>1,390</u>	<u>17,613</u>
	<u>\$ 79,592</u>	<u>\$ 2,780</u>	<u>\$ 82,372</u>

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2024:

	December 31, 2023	Additions	Retirements	December 31, 2024	Due Within One Year
Net pension liability	\$ 1,575,124	\$ 17,403	\$ -	\$ 1,592,527	\$ -
Notes payable	<u>516,241</u>	<u>-</u>	<u>(436,649)</u>	<u>79,592</u>	<u>63,369</u>
	<u>\$ 2,091,365</u>	<u>\$ 17,403</u>	<u>\$ (436,649)</u>	<u>\$ 1,672,119</u>	<u>\$ 63,369</u>

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

5. LONG-TERM DEBT (CONTINUED)

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

	December 31, 2023	Additions	Retirements	December 31, 2024	Due Within One Year
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>

For the year ended December 31, 2024 and 2023, the net OPEB liability was presented as a net OPEB asset on the Statement of Net Position.

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, 2024, 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, 2024, participating employers contributed 23.34% through June 30th and 19.71% 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, 2023, plan members contributed 26.79% through June 30th 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, 2024 and 2023

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 \$206,505 for the year ended December 31, 2024, or 100% of the required contribution. The District contributed \$185,799 for the year ended December 31, 2023, 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, 2024, the District reported a liability of \$1,592,527, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023 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, 2024, the District's proportion was .02663 percent, which was an increase of .0021 percent from its proportion measured as of June 30, 2023.

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

6. RETIREMENT PLAN (CONTINUED)

For the year ended December 31, 2024, the District recognized pension expense of \$212,213. For the year ended December 31, 2023, the District recognized pension expense of \$219,976. At December 31, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 77,081	\$ -
Changes of assumptions	-	71,951
Net difference between projected and actual earnings on Plan investments	-	102,391
Changes in proportion and differences between District contributions and proportionate share of contributions	132,021	-
District contributions subsequent to the measurement date	<u>83,979</u>	<u>-</u>
Total	<u>\$ 293,081</u>	<u>\$ 174,342</u>

The \$83,979 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, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2024 will be recognized in pension expense as follows:

Year ending December 31,

2025	\$ 35,789
2026	\$ 61,150
2027	\$ (39,360)
2028	\$ (22,819)

Actuarial Assumptions – The total pension liabilities in the June 30, 2024, 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-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, 2024 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, 2023) to the plan's fiscal year ending June 30, 2024.

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

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, 2024, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	60.00%	
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Fixed Income	20.00%	
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Inflation Protected	20.00%	
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%
Total	100.00%	4.69%
Long term inflation assumption		2.50%
Expected nominal return for portfolio		7.19%

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 27-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:

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.50%	\$ 2,053,028
Current discount rate	6.50%	\$ 1,592,527
1% increase	7.50%	\$ 1,210,433

Payable to the Pension Plan – At December 31, 2024 and 2023, the District reported a payable of \$19,818 and \$20,049, 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, 2024 and 2023

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, 2024, the employer's contribution was 0.00% through June 30th 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, 2024, the District contributed \$0, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2023, the District contributed \$12,882, 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, 2024 and 2023

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

OPEB Liabilities (Assets), Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2024, the District reported an asset for its proportionate share of the net OPEB asset of \$46,108. The net OPEB asset was measured as of June 30, 2024, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2023 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, 2024 was .02666 percent, which was an increase of .0021 percent from its proportion measured as of June 30, 2023.

For the year ended December 31, 2024, the District recognized OPEB expense of \$(75,298). For the year ended December 31, 2023, the District recognized OPEB expense of \$(39,554). At December 31, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 25,580	\$ 362,778
Changes of assumptions	41,779	32,534
Net difference between projected and actual earnings on Plan investments	-	42,076
Changes in proportion and differences between District contributions and proportionate share of contributions	65,738	-
District contributions subsequent to the measurement date	<u>12,498</u>	<u>-</u>
Total	<u>\$ 145,595</u>	<u>\$ 437,388</u>

The \$12,498 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, 2025. This includes an adjustment of \$12,498 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,

2025	\$ (121,637)
2026	\$ (97,162)
2027	\$ (85,646)
2028	\$ 154

Actuarial Assumptions – The total OPEB liability in the June 30, 2024, 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 7.10% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years.
Post – 65	Initial trend starting at 8.00% in 2026, then gradually decreasing to an ultimate trend rate of 4.25% over a period of 9 years.

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

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, 2024 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, 2023) to the plan's fiscal year ending June 30, 2024.

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	60.00%	
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Fixed Income	20.00%	
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Inflation Protected	20.00%	
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%
Total	100.00%	4.69%
Long term inflation assumption		2.50%
Expected nominal return for portfolio		7.19%

Discount Rate – The discount rate used to measure the total OPEB asset as of June 30, 2024, was 5.99%, 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, 2024, the discount rate determination used an expected rate of return of 6.50%, and a municipal bond rate of 3.97%, 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, 2024 and 2023

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:

	Discount rate	Proportionate share of net OPEB liability (asset)
1% decrease	4.99%	\$ 62,343
Current discount rate	5.99%	\$ (46,108)
1% increase	6.99%	\$ (137,294)

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:

	Proportionate share of net OPEB liability (asset)
1% decrease	\$ (110,930)
Current trend rate	\$ (46,108)
1% increase	\$ 29,405

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, 2024 and 2023, the District had construction in progress of \$1,646,406 and \$750,584, respectively, related to various projects.

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

10. RESTATEMENT OF NET POSITION

During 2024, the District implemented GASB Statement No. 101, *Compensated Absences*, as described more fully in Note 1. As outlined in GASB Statement No. 101, accrued compensated absences were restated for remeasurement of accrued vacation leave, accrued sick leave and the employer portion of FICA and Medicare taxes related to compensated absences for the year ended December 31, 2024 and 2023. This resulted in a restatement of beginning net position as follows:

Net position, beginning of 2023	\$ 51,233,110
Restatement for GASB 101	<u>(32,850)</u>
Net position, beginning of 2023, as restated	<u>\$ 51,200,260</u>
Net position, beginning of 2024	\$ 51,644,427
Restatement for GASB 101	<u>(38,888)</u>
Net position, beginning of 2024, as restated	<u>\$ 51,605,539</u>

11. SUBSEQUENT EVENT

In early 2025, the District incurred damage to various capital assets as a result of flood damage. Significant expenses are expected to repair the damaged assets and return them to their previous service capacity. As of March 28, 2025, the District does not have an estimate of flood repair related expenses for 2025. The District is working with the Federal Emergency Management Agency (FEMA) to receive funds to cover a portion of the flood repair expenses. The amount and probability of the District receiving FEMA reimbursements is uncertain as of March 28, 2025.

REQUIRED SUPPLEMENTARY INFORMATION

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

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	December 31, 2024
(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)	(June 30, 2024)
District's proportion of the net pension liability	0.01672%	0.01727%	0.01761%	0.01886%	0.01932%	0.02173%	0.02213%	0.02455%	0.02663%
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	\$ 1,592,527
District's covered employee payroll	\$ 442,662	\$ 460,392	\$ 476,238	\$ 514,991	\$ 568,340	\$ 626,135	\$ 703,748	\$ 808,706	\$ 883,021
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%	180.35%
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%	61.61%

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 Nine Calendar Years**

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually required employer contribution	\$ 60,741	\$ 63,249	\$ 77,086	\$ 92,829	\$ 111,460	\$ 127,901	\$ 163,462	\$ 185,799	\$ 206,505
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>	<u>206,505</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 903,141
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%	22.87%

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 Nine Years**

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	December 31, 2024
(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)	(June 30, 2024)
District's proportion of the net OPEB liability	0.01727%	0.01727%	0.01761%	0.01886%	0.01932%	0.02173%	0.02213%	0.02455%	0.02666%
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)	\$ (46,108)
District's covered employee payroll	\$ 442,662	\$ 460,392	\$ 476,238	\$ 514,991	\$ 568,340	\$ 626,135	\$ 703,748	\$ 808,706	\$ 883,021
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%	-5.22%
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%	104.89%

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 Nine Calendar Years**

	2016	2017	2018	2019	2020	2021	2022	2023	2024
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>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 903,141
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%	0.00%

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, 2024 and 2023

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, 2024 – Pension and OPEB

There were no changes in assumptions in the valuation of pension. The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2024, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.80% to 7.10%. The initial healthcare trend rate for post-65 was changed from 8.50% to 8.00%.

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%.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2024 and 2023**

2. CHANGES OF ASSUMPTIONS (CONTINUED)

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%.

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%

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2024 and 2023

2. CHANGES OF ASSUMPTIONS (CONTINUED)

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.

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.

SUPPLEMENTARY INFORMATION

KNOTT COUNTY WATER AND SEWER DISTRICT
BUDGETARY COMPARISON SCHEDULE
for the year ended December 31, 2024

	Original Budget	Appropriated Budget	Actual Amount	Variance with Final Budget Favorable (Unfavorable)
OPERATING REVENUE				
Water service	\$ 3,300,000	\$ 3,300,000	\$ 3,138,579	\$ (161,421)
Sewer service	-	-	118,431	118,431
Penalties	-	-	34,415	34,415
Grant income	-	-	557,577	557,577
Miscellaneous income	75,000	75,000	31,004	(43,996)
Reconnection and collection fees	-	-	683	683
Total operating revenue	<u>3,375,000</u>	<u>3,375,000</u>	<u>3,880,689</u>	<u>505,689</u>
OPERATING EXPENSES				
Salaries and fringe benefits	1,350,500	1,350,500	1,407,177	(56,677)
Commissioners	30,200	30,200	30,600	(400)
Office and advertising expense	750	750	16,898	(16,148)
Water consumption	114,000	114,000	205,221	(91,221)
Electricity	575,000	575,000	628,383	(53,383)
Telephone	21,500	21,500	30,853	(9,353)
Travel and training	7,000	7,000	7,277	(277)
Rents	1,000	1,000	-	1,000
Contractual fees	258,500	258,500	505,994	(247,494)
Vehicle expense	108,000	108,000	115,547	(7,547)
Operating supplies and maintenance	680,500	680,500	724,296	(43,796)
Licenses, permits, dues, and fees	11,500	11,500	15,265	(3,765)
Insurance and bonds	94,000	94,000	110,841	(16,841)
Total operating expense	<u>3,252,450</u>	<u>3,252,450</u>	<u>3,798,352</u>	<u>(545,902)</u>
Operating income before depreciation	122,550	122,550	82,337	(40,213)
Depreciation expense	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,586,804</u>	<u>(86,804)</u>
OPERATING (LOSS)	<u>(1,377,450)</u>	<u>(1,377,450)</u>	<u>(1,504,467)</u>	<u>(127,017)</u>
Non-operating income (expenses)				
Interest income	-	-	40,149	40,149
Gain (loss) on sale of assets	-	-	(14,297)	(14,297)
Interest expense	<u>(10,000)</u>	<u>(10,000)</u>	<u>(6,229)</u>	<u>3,771</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(1,387,450)</u>	<u>(1,387,450)</u>	<u>(1,484,844)</u>	<u>(97,394)</u>
Capital contributions				
Tap fees	-	-	31,087	31,087
Contributed capital	<u>-</u>	<u>-</u>	<u>1,605,339</u>	<u>1,605,339</u>
CHANGE IN NET POSITION	<u>\$ (1,387,450)</u>	<u>\$ (1,387,450)</u>	<u>\$ 151,582</u>	<u>\$ 1,539,032</u>

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 \$71,558. 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, 2023

	Original Budget	Appropriated Budget	Actual Amount	Variance with Final Budget Favorable (Unfavorable)
OPERATING REVENUE				
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
Total operating revenue	<u>3,525,000</u>	<u>3,525,000</u>	<u>5,013,148</u>	<u>1,488,148</u>
OPERATING EXPENSES				
Salaries and fringe benefits	1,177,500	1,177,500	1,261,773	(84,273)
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)
Total operating expense	<u>2,929,450</u>	<u>2,929,450</u>	<u>3,862,245</u>	<u>(932,795)</u>
Operating income before depreciation	595,550	595,550	1,150,903	555,353
Depreciation expense	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,520,868</u>	<u>(20,868)</u>
OPERATING (LOSS)	<u>(904,450)</u>	<u>(904,450)</u>	<u>(369,965)</u>	<u>534,485</u>
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>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(913,450)</u>	<u>(913,450)</u>	<u>(375,087)</u>	<u>538,363</u>
Capital contributions				
Tap fees	-	-	29,782	29,782
Contributed capital	<u>-</u>	<u>-</u>	<u>750,584</u>	<u>750,584</u>
CHANGE IN NET POSITION	<u>\$ (913,450)</u>	<u>\$ (913,450)</u>	<u>\$ 405,279</u>	<u>\$ 1,318,729</u>

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.

**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 the Knott County Water and Sewer District (the District), as of and for the year ended December 31, 2024, 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 March 28, 2025.

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 2024-001, 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 Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Knott County Water and Sewer District's response to the finding 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
March 28, 2025

**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
Vicc, 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, 2024. 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, 2024.

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
March 28, 2025

KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended December 31, 2024

Grantor / Program Title	Federal AL Number	Grantor Number	Grant Award Period	Expenditures
<u>U.S. Department of Homeland Security:</u>				
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	\$ 343,698
Disaster Grants - Public Assistance	97.036	SC 095 2400000161	05/09/23 - 06/30/34	20,013
				<u>363,711</u>
<u>U.S. Department of Interior:</u>				
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	\$ 1,254,411
Abandoned Mine Land Reclamation	15.252	SC 128 2300000262	09/01/22 - 12/31/26	188,778
				<u>1,443,189</u>
<u>U.S. Department of Agriculture:</u>				
Passed through the Rural Housing Service				
Community Facilities Loans and Grants	10.766	N/A	05/27/21 - 12/31/24	\$ 76,900
				<u>76,900</u>
TOTAL FEDERAL AWARDS				<u>\$ 1,883,800</u>

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 \$69,023 and recognized deferred revenue of \$453,875 in federal Disaster Grants - Public Assistance funding during the year ended December 31, 2024. 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 2024 SEFA for this grant include \$363,711 of payroll, equipment, materials, and contractor expenditures incurred in the year ended December 31, 2024, that were approved by FEMA during the year ended December 31, 2024. As of December 31, 2024, the District has received \$461,291 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, 2024. These funds are included in deferred revenue as of December 31, 2024.

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended December 31, 2024**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	<u>X</u> Yes	<u> </u> No
Significant deficiencies identified that are not considered to be material weaknesses	<u> </u> Yes	<u>X</u> None reported

Noncompliance material to financial statements noted	<u> </u> Yes	<u>X</u> No
--	---------------	-------------

Federal Awards:

Internal control over major programs:

Material weaknesses identified	<u> </u> Yes	<u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses	<u> </u> Yes	<u>X</u> 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)?	<u> </u> Yes	<u>X</u> No
--	---------------	-------------

Major Programs:

AL Number	Name of Federal Program or Cluster
15.252	Abandoned Mine Land Reclamation

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
--	------------

Auditee qualified as a low-risk auditee?	<u> </u> Yes	<u>X</u> No
--	---------------	-------------

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended December 31, 2024**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

2024-001 – 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 accounts receivable, prepaid expenses, 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 journal entries and 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 2023-001 – Internal Control over Financial Reporting

Status: Repeated as finding 2024-001.