

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

FARMDALE WATER DISTRICT

TABLE OF CONTENTS

Independent Auditor's Report	3-5
Management's Discussion and Analysis	6-11
Financial Statements	
Statement of Net Position	12-13
Statement of Revenues, Expenses, and Changes in Net Position	14-15
Statement of Cash Flows	16-17
Notes to Financial Statements	18-33
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34-35
Schedule of Findings and Responses	36-37
Summary Schedule of Prior Year Audit Findings	38
Required Supplementary Information	39
Schedule of Proportionate Share of the Net Pension Liability of CERS	40
Schedule of Pension Contributions to CERS	41
Schedule of Proportionate Share of the Net OPEB Liability of CERS	42
Schedule of OPEB Contributions to CERS	43
Notes to the Required Supplementary Information	44-45

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Farmdale Water District
Frankfort, Kentucky

Opinion

We have audited the accompanying financial statements of the business-type activities of Farmdale Water District ("the District") (a nonprofit governmental entity), which comprise the statement of net position as of December 31, 2023 and 2022, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farmdale Water District as of December 31, 2023 and 2022, and the changes in its net position and its cash flows 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 Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

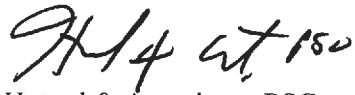
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6 through 11 and the historical pension and OPEB information on pages 37 through 43 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Harrod & Associates, PSC
Frankfort, Kentucky

May 29, 2024

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**FARMDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

As management of Farmdale Water District ("the District"), we offer readers of the District's financial statements this narrative overview of the District for the years ended December 31, 2023 and 2022. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements, which follow this section, to enhance their understanding of the District's financial performance.

The District was established in May 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, the District collects fees for several sewer treatment plants.

In October 2012, the District began installing meters which can be read by radio waves, building a water tower with increased storage capacity, and installing new pipe from the pump station. The District financed these improvements via company funds, grants from the Kentucky Infrastructure Authority, and loans from Regions Bank via the U.S. Department of Agriculture. The loan from Regions Bank was repaid in April 2014 with loan funds from the U.S. Department of Agriculture. The principal repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013. Due to the age of the lines and pipes, leaks have been a continuing and ongoing problem for the District. The district spent over \$50,000 in 2023 in repairing and replacing lines as part of an ongoing effort to reduce water loss, which is running just over 42%.

Financial Highlights

In 2023, the assets of the District exceeded its liabilities at the close of the year by \$2,051,073. Of this amount, \$1,537,220 was invested in capital assets (net of related debt); \$437,275 was restricted for debt retirement, customer deposits, and water loss reserves; and \$76,578 was unrestricted. In 2023, the District's net assets decreased (\$42,192), which represents an improvement over the prior year's loss of just over \$100,000 or 71.1%.

In 2022, the assets of the District exceeded its liabilities at the close of the year by \$2,093,265. Of this amount, \$1,711,314 was invested in capital assets (net of related debt); \$332,398 was restricted for debt retirement, customer deposits, and water loss reserves; and \$49,553 was unrestricted. In 2022, the District's net position decreased (\$145,983), which represents a substantial increase in operating loss, mostly due to a decrease in revenue combined with increasing water loss expense.

Revenues

Gross income from the sale of water and sewer surcharges, including tap on fees and reconnect fees totaled \$1,579,565 and \$1,532,350 for the calendar years 2023 and 2022, respectively. The Kentucky Public Service Commission (PSC) approved no rate increases in 2023 and 2022, with the most recent increase occurring in late 2020. The rate increase in 2020 was in response to continual excess water losses.

Expenses

Operating expenses were \$1,781,987 and \$1,798,951 for the calendar years 2023 and 2022, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased," "Transmission and Distribution," "Administrative and General Expense," "Maintenance and Repairs," "Taxes and Licenses" and "Employee Benefits." They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing, and accounting. These are

**FARMDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

Financial Highlights (Continued)

Expenses (Continued)

current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,750 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four-year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The District's financial statements are comprised of two components:

- >Financial Statements
- >Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. **The Statement of Net Position** presents information on the District's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
2. **The Statement of Revenues, Expenses, and Changes in Net Position** presents information showing how the District's net assets changed based on current year activity. Results of operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.
3. **The Statement of Cash Flows** presents the cash flow changes occurring during the calendar years 2023 and 2022 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to the Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to the Financial Statements can be found on pages 18 through 33 of this report.

**FARMDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

Financial Overview (Continued)

Statement of Net Position Overview

The District was not required to have an audit under Uniform Guidance for 2023 or 2022.

Condensed Statement of Net Position

	2023	(Restated) 2022	Change from 2022 to 2023	
			Amount	Percent
ASSETS				
Current and other assets	\$ 1,220,036	\$ 1,074,067	\$ 145,969	13.59%
Capital assets, net	3,241,489	3,375,314	(133,825)	-3.96%
Deferred outflows	57,255	97,865	(40,610)	-41.50%
Total assets	4,518,780	4,547,246	(28,466)	-0.63%
LIABILITIES				
Current and other liabilities	686,770	747,927	(61,157)	-8.18%
Long-term debt	1,606,000	1,636,000	(30,000)	-1.83%
Deferred inflows	174,937	70,054	104,883	149.72%
Total liabilities	2,467,707	2,453,981	13,726	0.56%
NET POSITION				
Net investment in capital assets	1,537,220	1,711,314	(174,094)	-10.17%
Restricted	437,275	332,398	104,877	31.55%
Unrestricted	76,578	49,553	27,025	54.54%
Total net position	\$ 2,051,073	\$ 2,093,265	\$ (42,192)	-2.02%

Current and Other Assets and Deferred Outflows

In 2023, the District's total assets remained relatively steady, decreasing \$28,466 from 2022. The audited financial statements indicate the most notable decrease was in Deferred Outflows. The largest increases was in Grants Receivable.

Capital Assets

The District's investments in capital assets as of December 31, 2023 and 2022 amounted to \$3,241,489 and \$3,375,314 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included installation of new hydrants and meters, and purchases of equipment including a maintenance truck, a trailer, and an excavator.

**FARMDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

Financial Overview (Continued)

Liabilities

In 2023, the District's total liabilities remained steady, increasing \$13,726 from 2022. The audited financial statements indicate the most notable increases were in Accounts Payable and Community Trust Bank Loans Payable. The largest decreases noted were in U.S. Department of Agriculture Loan Payable, Net Other Post-Employment Benefits (OPEB) Liability, and Net Pension Liability.

Net Position

The District's assets exceeded its liabilities by \$2,051,073 and \$2,093,265 for the years ended December 31, 2023 and 2022, respectively. This represents a decrease from 2022 to 2023 of \$(42,192). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net position reflects the District's investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Statement of Revenues, Expenses, and Changes in Net Position Overview

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2023	(Restated)	Change from 2022 to 2023		2023 Budget
		2022	Amount	Percent	
Operating revenues	\$ 1,579,565	\$ 1,532,350	\$ 47,215	3.08%	\$ 1,845,300
Operating expenses	1,781,987	1,798,951	(16,964)	-0.94%	2,044,385
Operating income/(loss)	(202,422)	(266,601)	64,179	-24.07%	(199,085)
Net non-operating income/(expenses)	160,230	120,618	39,612	32.84%	200
Change in net position	\$ (42,192)	\$ (145,983)	\$ 103,791	-71.10%	\$ (198,885)

Revenue

For the year ended December 31, 2023, operating revenues were \$1,579,565. This amount represents an increase of \$47,215 or 3.08% from the prior year. Our analysis indicated the main reason for this increase in operating revenues was due to increased commercial water sales.

**FARMDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

Financial Overview (Continued)

Expenses

For the year ended December 31, 2023, operating expenses were \$1,781,987. This amount represents a small decrease of \$16,964 or 0.94% from the prior year. Most operating expenses appear to have stayed consistent with the prior year.

Debt Administration

Short-Term Debt

During 2023, the District took out two short-term loans with Community Trust Bank to aid in the purchase of a used vehicle for the maintenance department and a new excavator. The District has been approved for grant funding from the Kentucky Infrastructure Authority (KIA) in the amount of \$113,084 for these and other various necessary equipment purchases, but the funds were not yet available in 2023 and are expected to be received in 2024. Because the District needed the equipment as soon as possible, rather than waiting for the grant funds, the vehicle was financed for \$14,331 and the excavator was financed for \$53,938, each at 6.5% interest payable monthly. The loan principal for each loan is due to be paid in full on July 2, 2024, by which time the District expects to have received the KIA grant funding needed to pay the full balances.

Long-Term Debt

The District has entered into an agreement with the U.S. Department of Agriculture to borrow \$1,668,000 and a subsequent \$190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013, the District received loan proceeds from the U.S. Department of Agriculture and paid off the Regions Bank loan. The District repaid principal of \$28,000 in January 2023 and \$28,500 in January 2022. The loan is a 40-year loan at 3.125% interest payable semi-annually. Prepayment of the loan is not allowed.

Budget

KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

Throughout the year, the District searched for and repaired various leaks. The District's water loss percentage for the years ended December 31, 2023 and 2022 was approximately 42.2% and 43.4%, respectively. The District's goal is to decrease their water loss percentage, though progress has been slow due to rising costs associated with making the necessary repairs.

As mentioned above, the District accepted \$113,084 in grant funding from KIA through the cleaner water program in 2023. The goal of this grant program is to provide clean drinking water and improve water systems across Kentucky. These funds were still receivable as of December 31, 2023 and are expected to be received in full in 2024. In addition to paying off the equipment loans with Community Trust Bank, these funds are also going to be used to upgrade water lines to further decrease water losses.

In 2022, the District was able to secure \$100,000 in grant funding from the Franklin County Fiscal Court to install new lines in the South Benson area, and the project was completed during the summer and fall. This project represents progress toward the District's ultimate goal of reducing water loss to an acceptable amount.

**FARMDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

The Future (Continued)

Liquidity

Working capital ratios for 2023 and 2022 were 1.922 and 2.467, respectively. While not optimal ratios, both are considered adequate. However, the downward trend of this ratio from 2022 to 2023 could potentially indicate conditions in which the District may face a cash shortfall in the near future.

Overall

The District has implemented system enhancements to improve service provided to customers as well as increase operating efficiency. However, as noted above, water loss was still at a very high rate averaging approximately 42.2% of purchased water throughout the year, which represents only a slight decrease from 43.4% water loss in the prior year. With the assistance of their attorney, the District has adopted a Qualified Infrastructure Improvement Plan and Water Loss Reduction Plan, which lays out the steps in detail they plan to take in order to solve these recurring issues. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers, and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

**FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023 AND 2022**

	ASSETS	
	<u>2023</u>	<u>2022</u> (Restated)
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 245,141	\$ 356,823
Cash - Restricted Customer Deposits	39,601	38,554
Current Certificates of Deposit	105,764	103,109
Accounts Receivable	232,802	228,334
Grants Receivable	113,084	-
Inventory	62,868	37,156
Accrued Interest Receivable	-	648
Prepaid Expenses	17,465	15,598
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	816,725	780,222
CAPITAL ASSETS		
Land & Buildings	78,722	78,722
Equipment	295,606	282,568
Vehicles	59,560	53,230
Water Lines, Hydrants, Towers, & Meters	6,684,187	6,673,809
Accumulated Depreciation	(3,876,586)	(3,713,015)
	<hr/>	<hr/>
TOTAL CAPITAL ASSETS	3,241,489	3,375,314
NONCURRENT ASSETS		
Cash - Water Loss Surcharge Account	297,904	204,799
Cash - Debt Reserve	99,771	89,046
Net OPEB Asset	5,636	-
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	403,311	293,845
DEFERRED OUTFLOWS		
Deferred Outflows - OPEB	25,567	47,079
Deferred Outflows - Pension	31,688	50,786
	<hr/>	<hr/>
TOTAL DEFERRED OUTFLOWS	57,255	97,865
	<hr/>	<hr/>
TOTAL ASSETS	\$ 4,518,780	\$ 4,547,246

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

**FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023 AND 2022**

LIABILITIES

	<u>2023</u>	<u>2022</u> (Restated)
CURRENT LIABILITIES		
Accounts Payable	\$ 235,564	\$ 187,802
Customer Deposits and Accrued Interest	44,477	45,533
Accrued Sales, School, and Payroll Taxes	6,185	13,488
Accrued Pension Expense	4,971	4,547
Accrued Loan Interest Payable	25,562	26,000
Community Trust Bank Loans Payable	68,269	-
Current Portion of Noncurrent Liabilities	30,000	28,000
Unearned Income	9,820	10,866
	424,848	316,236
NONCURRENT LIABILITIES		
U.S. Department of Agriculture Loan Payable	1,636,000	1,664,000
Current Portion of Noncurrent Liabilities	(30,000)	(28,000)
Net OPEB Liability	-	92,578
Net Pension Liability	261,922	339,113
	1,867,922	2,067,691
DEFERRED INFLOWS		
Deferred Inflows - OPEB	112,630	55,509
Deferred Inflows - Pension	62,307	14,545
	174,937	70,054
TOTAL LIABILITIES	2,467,707	2,453,981
NET POSITION		
Invested in Capital Assets, Net of Related Debt	1,537,220	1,711,314
Net Position - Restricted	437,275	332,398
Net Position - Unrestricted	76,578	49,553
	2,051,073	2,093,265
TOTAL LIABILITIES AND NET POSITION	\$ 4,518,780	\$ 4,547,246

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

OPERATING REVENUES	<u>2023</u>	<u>2022</u> (Restated)
User Fees:		
Water - Residential	\$ 1,081,010	\$ 1,107,260
Water - Commercial	243,360	180,504
Sewer Surcharge Fees	79,075	74,331
Water Loss Surcharge	92,369	91,998
Tap-On Fees	22,640	23,693
Late Payment Penalty Income	46,862	42,433
Lease Income	1,200	1,200
Reconnect Fees	7,380	10,931
Customer Reimbursements	5,669	-
	1,579,565	1,532,350
OPERATING EXPENSES		
Water Purchased	762,868	709,829
Pumping Electricity	23,980	26,319
Salaries & Wages	275,251	282,450
Payroll Taxes	21,328	24,060
Employee Benefits	39,056	34,436
Retirement Benefits	26,603	32,669
Transmission and Distribution Expense	74,634	108,317
Administrative and General Expense	139,104	121,493
Interest Paid on Loans	52,084	52,000
Customer Deposit Interest Expense	1,718	-
Water Testing	6,218	3,149
Maintenance & Repairs	51,216	89,064
Insurance & Workers' Comp	27,675	24,369
Taxes & Licenses	53,748	46,087
Fines/Penalties	-	117
Bad Debts	18,450	16,536
Depreciation	208,054	228,056
	1,781,987	1,798,951
Operating Income (Loss)	(202,422)	(266,601)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NONOPERATING REVENUES (EXPENSES)	<u>2023</u>	<u>2022</u> (Restated)
Sewer Fees Collected	920,355	745,729
Sewer Fees Paid	(920,355)	(745,729)
KIA Grant	113,084	-
Franklin County Fiscal Court Grant	-	100,000
Insurance Proceeds	-	3,672
Gain on Sale of Assets	26,908	7,919
Interest Income	11,433	5,886
Other Income	8,805	3,141
	<hr/>	<hr/>
TOTAL NON OPERATING REVENUES (EXPENSES)	160,230	120,618
	<hr/>	<hr/>
Change in Net Position	(42,192)	(145,983)
Net Position - Beginning of Year	2,093,265	2,239,248
	<hr/>	<hr/>
Net Position - End of Year	<u>\$ 2,051,073</u>	<u>\$ 2,093,265</u>

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u> (Restated)
Cash Flow from Operating Activities		
Cash received from users and customers	\$ 1,569,308	\$ 1,570,894
Cash payments to employees for services & benefits	(341,190)	(349,555)
Cash payments to suppliers of goods and services	<u>(1,199,699)</u>	<u>(1,140,388)</u>
Net Cash Provided (Used) by Operating Activities	28,419	80,951
Cash Flow from Capital & Related Financing Activities		
USDA loan principal payments	(28,000)	(28,500)
Interest paid on loans	(52,522)	(52,445)
Purchases of capital assets and equipment	(85,746)	(158,830)
Proceeds from sales of equipment	<u>38,425</u>	<u>9,000</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	(127,843)	(230,775)
Cash Flow from Noncapital Financing Activities		
Cash received from non-operating revenues	1,003,283	845,729
Other non-operating expenses/income	-	6,800
Cash paid out from other non-operating expenses	<u>(920,074)</u>	<u>(745,729)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	83,209	106,800
Cash Flows from Investing Activities		
Receipt of interest	12,081	6,006
Interest reinvested in CD	<u>(2,671)</u>	<u>(770)</u>
Net Cash Provided (Used) by Investing Activities	9,410	5,236
Net Change in Cash and Cash Equivalents	<u>(6,805)</u>	<u>(37,788)</u>
Cash and Cash Equivalents, Beginning of Year	<u>689,222</u>	<u>727,010</u>
Cash and Cash Equivalents, End of Year	<u>\$ 682,417</u>	<u>\$ 689,222</u>
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	\$ 75	\$ 75
Whitaker Bank - Operations Account	136,307	166,862
Whitaker Bank - Deposit Account	39,601	38,554
Whitaker Bank - Debt Reserve Account	297,904	89,046
Community Trust Bank - Loss Surcharge Account	99,771	204,799
Community Trust Bank - Money Market	106,814	187,943
Community Trust Bank - Checking	<u>1,945</u>	<u>1,943</u>
	<u>\$ 682,417</u>	<u>\$ 689,222</u>

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

**FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

Reconciliation of operating income (loss) to net cash provided by operating activities:

	<u>2023</u>	<u>2022</u> (Restated)
Operating Loss	\$ (202,422)	\$ (266,601)
Noncash items included in operating income (loss):		
Depreciation	208,054	228,056
Bad Debts	18,450	16,536
Pension/OPEB Changes	111,132	28,370
Changes in assets and liabilities:		
(Increase)/Decrease in Certificates of Deposit	(2,655)	(770)
(Increase)/Decrease in Accounts Receivable	(4,468)	36,427
(Increase)/Decrease in Grants Receivable	(113,084)	-
(Increase)/Decrease in Inventory	(25,712)	(5,500)
(Increase)/Decrease in Accrued Interest Receivable	648	120
(Increase)/Decrease in Prepaid Expenses	(1,867)	(2,888)
Increase/(Decrease) in Accounts Payable	47,762	46,479
Increase/(Decrease) in Accrued Taxes	(7,303)	2,383
Increase/(Decrease) in Customer Deposits & Accrued Interest	(1,056)	(568)
Increase/(Decrease) in Accrued Pension Expense	424	(13)
Increase/(Decrease) in Unearned Income	(1,046)	(1,135)
Increase/(Decrease) in Accrued Loan Interest Payable	(438)	(445)
Increase/(Decrease) in Current USDA Loan Payable	2,000	500
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	<u>\$ 28,419</u>	<u>\$ 80,951</u>

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statute 74.012. The Court appoints the District's three commissioners to serve up to four-year terms. The District primarily serves residents of western Franklin County; however, they also have customers in Anderson and Shelby counties. The District is governed by the Kentucky Public Service Commission. The District is not considered a component unit of Franklin County. The District operates under the provisions of the Kentucky Revised Statute mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is the sale of water to residential and commercial customers as well as the collection of sewer fees for various sewer treatment plants. The Kentucky Public Service Commission sets the rates charged for the water sold and adjustments are made accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42-year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All the District's activity is accounted for as business-type activities. Operating revenues relate to the District's primary function of water sales, and likewise, operating expenses include expenses to distribute water to customers. Non-operating revenues and expenses relate to all other revenue and expenses.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34) established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on net asset use imposed by external parties such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

See Independent Auditor's Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Unrestricted – This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. CASH AND CASH EQUIVALENTS

For business-type activities all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

F. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of \$1,000 in all three accounts at all times.

G. ACCOUNTS RECEIVABLE

Accounts receivables are stated at the amount owed by customers to the District. The District does not provide an allowance for uncollectible accounts, but rather expenses such items in the period they become uncollectible. This practice differs from generally accepted account principles, but its impact is deemed immaterial. The amount written-off for the years ended December 31, 2023 and 2022 totaled \$18,450 and \$16,536, respectively. Management believes the remaining balance to be collectable.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants as well as the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. PREPAID EXPENSES

Prepaid expenses include expenditures for insurance and software maintenance made in connection with future programs and activities.

J. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management’s estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities if any, at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The most significant estimates were the actuarial assumptions and calculations concerning pension and OPEB amounts.

See Independent Auditor’s Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. PAYMENT POLICIES

The District bills customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District may turn off the customers' water.

L. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines and pumping station, installation of automated meter reading, and a new water storage tank. In April 2013, the District refinanced the loan with the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled \$1,858,000. The District paid \$28,000 and \$28,500 in principal during the calendar years ended December 31, 2023 and 2022, respectively. The loan balance was \$1,636,000 and \$1,664,000 at December 31, 2023 and 2022, respectively.

M. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows and inflows of resources, and pension expense, information about the District's participation in the County Employees Retirement System (CERS) of the Kentucky Public Pensions Authority (KPPA) have been determined on the same basis as they are reported by the KPPA for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KPPA. The liability was measured at June 30, 2023 and 2022. See Note 4 for full disclosure of activity.

N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Financial Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Financial Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources (reduction of an expense) until that time.

NOTE 2 – CASH AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks.

The District's general operating account and customer deposits are held with Whitaker Bank. The balances of the District's accounts at Whitaker Bank are in excess of the \$250,000 FDIC insurance provided by the United States Government, but the bank has pledged additional bank assets as collateral to cover the difference.

See Independent Auditor's Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 2 – CASH AND CERTIFICATES OF DEPOSIT (Continued)

The District also has accounts with Community Trust Bank. The accounts are secured by collateral pledged by the bank held by Raymond James & Associates. The market value of the collateral securing the deposits is required to at least be equal to the amount of the deposits held by bank in excess of the \$250,000 FDIC provided by the United States Government.

The investment policies of the District are governed by state statute. Major provisions of the District’s investment policy include the following: depositories must be with FDIC insured banking institutions, and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District’s bank deposits was \$788,106 and \$792,256 for the years ended December 31, 2023 and 2022, respectively. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

- Category 1 - Insured.
- Category 2 - Collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.
- Category 3 - Collateralized with securities held by the pledged financial institution in the institution’s name.

Bank Balances and Certificates of Deposit at December 31, 2023, categorized by level of risk are:

	Risk Category			Bank Balances	Uninsured/ Uncolla- terialized	Book Value
	1	2	3			
Bank Balances:						
Whitaker Bank	\$ 250,000	\$ -	\$ 25,679	\$ 275,679	\$ -	\$ 275,679
Community Trust (including CDs)	250,000	-	262,427	512,427	-	\$ 512,427
Total	\$ 500,000	\$ -	\$ 288,106	\$788,106	\$ -	\$ 788,106

Bank Balances and Certificates of Deposit at December 31, 2022, categorized by level of risk are:

	Risk Category			Bank Balances	Uninsured/ Uncolla- terialized	Book Value
	1	2	3			
Bank Balances:						
Whitaker Bank	\$ 250,000	\$ -	\$ 44,462	\$ 294,462	\$ -	\$ 294,462
Community Trust	250,000	-	144,685	394,685	-	\$ 394,685
First Federal (CDs)	103,109	-	-	103,109	-	\$ 103,109
Total	\$ 603,109	\$ -	\$ 189,147	\$792,256	\$ -	\$ 792,256

See Independent Auditor’s Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 2 – CASH AND CERTIFICATES OF DEPOSIT (Continued)

Restrictions on Cash

The District has three restricted cash accounts, comprised of the following:

- Customer Deposits: See Note 6 below for additional information.
- Debt Reserve: The USDA loan requires that the District deposit \$825 per month to a “Funded Debt Reserve” account until the account reaches \$98,500. See Note 10 below for additional information.
- Water Loss Surcharge: In 2020, the Public Service Commission ordered the District to add \$3 per month to each bill to reserve funds for the ongoing excessive water losses due to line leaks. The District cannot spend these funds without approval from the Public Service Commission.

NOTE 3 – PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District’s threshold for capitalization is \$2,500. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

The following represents the activity for the year ended December 31, 2023:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/ Towers/ Meters	Totals
Beginning	\$ 78,722	\$ 282,568	\$ 53,230	\$ 6,673,809	\$ 7,088,329
Deletions	-0-	-48,000	-8,000	-0-	-56,000
Additions	-0-	61,038	14,330	10,378	85,746
Ending	<u>\$ 78,722</u>	<u>\$ 295,606</u>	<u>\$ 59,560</u>	<u>\$ 6,684,187</u>	<u>\$ 7,118,075</u>

The following represents the activity for the year ended December 31, 2022:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/ Towers/ Meters	Totals
Beginning	\$ 78,722	\$ 255,541	\$ 62,230	\$ 6,542,006	\$ 6,938,499
Deletions	-0-	-0-	-9,000	-0-	-9,000
Additions	-0-	27,027	-0-	131,803	158,830
Ending	<u>\$ 78,722</u>	<u>\$ 282,568</u>	<u>\$ 53,230</u>	<u>\$ 6,673,809</u>	<u>\$ 7,088,329</u>

A summary of property and equipment and depreciation for the years ended December 31, 2023 and 2022 is as follows:

	Cost	Current Provision	Accumulated Depreciation
Year ended December 31, 2023	\$ 7,118,075	\$ 208,054	\$ 3,876,586
Year ended December 31, 2022	\$ 7,088,329	\$ 228,056	\$ 3,713,015

Land valued at \$4,806 is not being depreciated.

See Independent Auditor’s Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 4 – EMPLOYEE RETIREMENT BENEFITS

General Information:

The District is a participating employer of the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the CERS Board of Trustees (Board) of the Kentucky Public Pension Authority (KPPA) administers the CERS. The KPPA issues publicly available financial statements which may be downloaded from the KPPA website.

Plan Description:

The 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. The CERS provides plan members with benefits through a pension trust and an insurance trust. The pension trust provides retirement, disability, and death benefits. The insurance trust provides health insurance or other postemployment benefits (OPEB). Benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the state legislature.

Benefits Provided:

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

	Participation Date	Unreduced Benefit	Reduced Benefit
Tier 1	Before September 1, 2008	27 years of service or 65 years old and 4 years of service	At least 5 years of service and 55 years old or 25 years of service and any age
Tier 2	After September 1, 2008 but before December 31, 2013	At least 5 years of service and 65 years old or age 57+ and sum of service years plus age equal to 87+	At least 10 years of service and 60 years old
Tier 3	After December 31, 2013	At least 5 years of service and 65 years old or age 57+ and sum of service years plus age equal to 87+	Not available

COLAs are provided at the discretion of the Kentucky 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 consecutive years of earnings. Reduced benefits are based on factors of both components. Participating employees become eligible to receive health insurance benefits after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are provided in one lump sum payment of \$5,000. Five years of 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 or \$10,000 plus 25% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

See Independent Auditor's Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 4 – EMPLOYEE RETIREMENT BENEFITS (Continued)

Contributions:

For the years ended December 31, 2023 and 2022, plan members were required to contribute 5% of wages 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 were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding July 1 of a new biennium. The board may amend contribution rates as of July 1 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 the actuarial basis adopted by the Board. For the year ended December 31, 2023, participating employers contributed 26.79% (23.40% to the pension fund and 3.39% to the insurance fund) of each employee's wages from January 1, 2023 to June 30, 2023, and 23.34% (23.34% to the pension fund and 0% to the insurance fund) of each employee's wages from July 1, 2023 to December 31, 2023, which is equal to the actuarially determined rate set by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% (22.78% to the pension fund and 4.17% to the insurance fund) of each employee's wages from January 1, 2022 to June 30, 2022, and 26.79% (23.40% to the pension fund and 3.39% to the insurance fund) of each employee's wages from July 1, 2022 to December 31, 2022, which is equal to the actuarially determined rate set by the Board. Administrative costs of the CERS are financed through employer contributions and investment earnings.

The District contributed \$36,934 and \$45,337 for the years ended December 31, 2023 and 2022, respectively, or 100% of the required contributions. The 2023 contributions were allocated \$34,406 to the pension fund and \$2,528 to the insurance fund. The 2022 contributions were allocated \$39,007 to the pension fund and \$6,330 to the insurance fund.

Pension Liabilities, Expense, and Deferred Outflows and Inflows of Resources:

At December 31, 2023 and 2022, the District reported a liability for its proportionate share of the net pension liability of \$261,922 and \$339,113, respectively. The net pension liability was measured as of June 30, 2023 and 2022, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023 and 2022, respectively, and 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. The District's proportionate share at December 31, 2023 was .004082%, which was equal to its proportion measured as of June 30, 2023. At December 31, 2022, the District's proportion was .004691%, which was equal to its proportion measured as of June 30, 2022.

For the years ended December 31, 2023 and 2022, the District recognized pension expense of \$26,603 and \$32,669, respectively. At December 31, 2023, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

See Independent Auditor's Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 4 – EMPLOYEE RETIREMENT BENEFITS (Continued)

Pension Liabilities, Expense, and Deferred Outflows and Inflows of Resources: (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual results	\$ 13,559	\$ 712
Change in assumptions	-	24,005
Net difference between projected and actual earnings on plan investments	-	3,573
Changes in proportion and difference between employer contributions and proportionate share of contributions	1,174	34,017
Contributions subsequent to the measurement date	16,955	-
Total	\$ 31,688	\$ 62,307

The \$16,955 of deferred outflows of resources resulting from the District’s contributions subsequent to the measurement date as of December 31, 2023, will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Inflow/(Outflow)</u>
December 31, 2024	\$ 27,949
December 31, 2025	22,936
December 31, 2026	(5,847)
December 31, 2027	2,536

Actuarial Assumptions:

Total pension liabilities in the June 30, 2023 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Payroll growth	2.00%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.50%, net of plan investment expense, including inflation

Mortality rates were based on the PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2020 Mortality Improvement Scale using a base year of 2010 for pre-retirement and 2023 for post-retirement members. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013 through 2022, projected with the ultimate rates from MP-2020 Mortality Improvement Scale using a base year of 2023. The Mortality Table used for 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 MP-2020 Mortality Improvement Scale using a base year of 2010.

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

See Independent Auditor’s Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 4 – EMPLOYEE RETIREMENT BENEFITS (Continued)

Actuarial Assumptions: (Continued)

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
Equity		60.00%
Public Equity	5.90%	50.00%
Private Equity	11.73%	10.00%
Fixed Income		20.00%
Core Fixed Income	2.45%	10.00%
Specialty Credit	3.65%	10.00%
Cash	1.39%	0.00%
Inflation Protected		20.00%
Real Estate	4.99%	7.00%
Real Return	5.15%	13.00%
		<hr/> 100.00% <hr/>
Expected Real Return	5.75%	
Long Term Inflation Assumption	2.50%	
Expected Nominal Return for Portfolio	8.25%	

Discount Rate:

The discount rate used to measure the total pension liability was 6.5% 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 closed 30-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the 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 6.5%, 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 (5.5%) or 1- percentage-point higher (7.5%) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net Pension Liability</u>
1% Decrease	5.5%	\$ 330,692
Current Discount Rate	6.5%	261,922
1% Increase	7.5%	204,771

See Independent Auditor’s Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 4 – EMPLOYEE RETIREMENT BENEFITS (Continued)

Payable to the Pension Plan:

At December 31, 2023 and 2022, the District reported a payable of \$4,971 and \$4,547 for the outstanding amount of contributions to the pension plan required for the year then ended, respectively. The payable includes both the pension and insurance contribution allocation.

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS

Plan Description:

As more fully described in Note 4, 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 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.

Benefits Provided:

CERS provides health insurance benefits to plan employees and beneficiaries. For OPEB purposes, employees are grouped into three tiers based on hire date:

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

Contributions:

For the years ended December 31, 2023 and 2022, plan members were required to contribute 5% of wages 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 were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding July 1 of a new biennium. The board may amend contribution rates as of July 1 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

See Independent Auditor's Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 5 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Contributions: (Continued)

determined in accordance with the actuarial basis adopted by the Board. For the year ended December 31, 2023, participating employers contributed 26.79% (23.40% to the pension fund and 3.39% to the insurance fund) of each employee’s wages from January 1, 2023 to June 30, 2023, and 23.34% (23.34% to the pension fund and 0% to the insurance fund) of each employee’s wages from July 1, 2023 to December 31, 2023, which is equal to the actuarially determined rate set by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% (22.78% to the pension fund and 4.17% to the insurance fund) of each employee’s wages from January 1, 2022 to June 30, 2022, and 26.79% (23.40% to the pension fund and 3.39% to the insurance fund) of each employee’s wages from July 1, 2022 to December 31, 2022, which is equal to the actuarially determined rate set by the Board. Administrative costs of the CERS are financed through employer contributions and investment earnings.

As noted previously in Note 4, the District contributed \$36,934 and 45,337 for the years ended December 31, 2023 and 2022, respectively, or 100% of the required contributions. The 2023 contributions were allocated \$34,406 to the pension fund and \$2,528 to the insurance fund. The 2022 contributions were allocated \$39,007 to the pension fund and \$6,330 to the insurance fund.

OPEB Liabilities/(Assets), Expense, and Deferred Outflows and Inflows of Resources:

At December 31, 2023 and 2022, the District reported a liability/(asset) for its proportionate share of the net OPEB liability/(asset) of \$(5,636) and \$92,578, respectively. The net OPEB liability was measured as of June 30, 2023 and 2022, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2023 and 2022, respectively, using generally accepted actuarial procedures. The District’s proportion of the net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2023, the District’s proportion was .004082%, which was equal to its proportion measured as of June 30, 2023. At December 31, 2022, the District’s proportion was .004691%, which was equal to its proportion measured as of June 30, 2022.

For the years ended December 31, 2023 and 2022, the District recognized OPEB expense of \$38,552 and \$34,074, respectively. At June 30, 2023, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual results	\$ 3,929	\$ 80,024
Change in assumptions	11,091	7,729
Net difference between projected and actual earnings on plan investments	-	1,308
Changes in proportion and difference between employer contributions and proportionate share of contributions	8,706	23,569
Contributions subsequent to the measurement date	1,841	-
Total	\$ 25,567	\$ 112,630

See Independent Auditor’s Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 5 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

OPEB Liabilities, Expense, and Deferred Outflows and Inflows of Resources: (Continued)

The \$1,841 of deferred outflows of resources resulting from the District’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2024. This includes an adjustment of \$1,841 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows and inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ended</u>	<u>Inflow/(Outflow)</u>
December 31, 2024	\$ 23,780
December 31, 2025	26,210
December 31, 2026	21,210
December 31, 2027	17,705

Actuarial Assumptions:

Inflation	2.50%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.50%, net of plan investment expense, including inflation
Healthcare trend	
Pre-65	Initial trend starting at 6.80% at January 1, 2025, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post-65	Initial trend starting at 8.50% at January 1, 2025, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

Mortality rates were based on the PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2020 Mortality Improvement Scale using a base year of 2010 for pre-retirement and 2023 for post-retirement members. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013 through 2022, projected with the ultimate rates from MP-2020 Mortality Improvement Scale using a base year of 2023. The Mortality Table used for 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 MP-2020 Mortality Improvement Scale using a base year of 2010.

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

The long-term expected return on plan assets 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.

See Independent Auditor’s Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 5 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Assumptions: (Continued)

As of December 31, 2023, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
Equity		60.00%
Public Equity	5.90%	50.00%
Private Equity	11.73%	10.00%
Fixed Income		20.00%
Core Fixed Income	2.45%	10.00%
Specialty Credit	3.65%	10.00%
Cash	1.39%	0.00%
Inflation Protected		20.00%
Real Estate	4.99%	7.00%
Real Return	5.15%	13.00%
		100.00%
Expected Real Return	5.75%	
Long Term Inflation Assumption	2.50%	
Expected Nominal Return for Portfolio	8.25%	

Discount Rate:

The discount rate used to measure the total OPEB liability/(asset) was 5.93% for the year ended June 30, 2023 (5.70% for the prior year) 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. The discount rate determination used an expected rate of return of 6.50%, and a municipal bond rate of 3.86%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2023. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KPPA's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KPPA's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.93%, 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 (4.93%) or 1- percentage-point higher (6.93%) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability/(Asset)</u>
1% Decrease	4.93%	\$ 10,576
Current Discount Rate	5.93%	(5,636)
1% Increase	6.93%	(19,212)

See Independent Auditor's Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 5 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Healthcare 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:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability/(Asset)</u>
1% Decrease	4.93%	\$ (18,064)
Current Trend Rate	5.93%	(5,636)
1% Increase	6.93%	9,631

NOTE 6 – CUSTOMER DEPOSITS

New customers must pay a \$70 deposit to become a customer of the District. The District deposits these funds in an interest-bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. The Kentucky Public Service Commission (PSC) statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%. Currently, the District pays the accrued interest as a credit on the customer’s account which is then applied to their next bill.

NOTE 7 – TAPPING FEES AND CAPITAL CONTRIBUTIONS

The Kentucky Public Service Commission (PSC), the regulatory agency governing the District, requires that Tapping Fees be recorded under equity as “proceeds from capital contributions,” instead of being included in revenue. Tapping Fees are presented on the PSC Report in equity as “Donated Capital.” These financial statements do not reflect this presentation as these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased by \$22,640 and \$23,693 in 2023 and 2022, respectively.

NOTE 8 – SUBSEQUENT EVENTS

The District has adopted FASB ASC 855 “Subsequent Events.” The District evaluated events occurring between the end of its most recent year and this report date, which is the date these financial statements were available to be issued. Management does not believe any events occurred which would subsequently affect these financial statements.

See Independent Auditor’s Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 9 – 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 workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

NOTE 10 – FEDERAL LOAN PAYABLE

As noted previously, the District financed \$1,858,000 with the U.S. Department of Agriculture in April 2013. The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principal payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account ("Funded Debt Reserve Account") and deposit \$750 per month for the original loan and \$75 per month for the subsequent loan until such time the account reaches \$98,500 (which was reached in December 2023). Management has opened this account and the account balance was \$99,771 and \$89,046 at December 31, 2023 and 2022, respectively.

The District paid \$28,000 of principal on January 1, 2023 and \$28,500 of principal on January 1, 2022. In addition, another \$30,000 in principal was due on January 1, 2024. Total interest expense on this loan was \$51,125 and \$52,000 for December 31, 2023 and 2022, respectively.

The District's long-term debt at December 31, 2023 and 2022 is detailed as follows:

	Principal Balance, 1/1	Borrowings	Payments	Principal Balance, 12/31	Current Portion	Long-Term Portion
2023	\$1,664,000	-0-	\$28,000	\$1,636,000	\$30,000	\$1,606,000
2022	\$1,692,500	-0-	\$28,500	\$1,664,000	\$28,000	\$1,636,000

The long-term debt service requirements for the USDA loan is as follows:

Year	Principal	Interest	Total
2024	30,000	50,188	80,188
2025	31,500	49,203	80,703
2026-2031	217,500	273,266	490,766
2032-2036	226,500	191,375	417,875
2037-2041	278,500	151,203	429,703
2042-2046	340,500	102,062	442,562
2047-2051	418,000	41,750	459,750
2052	93,500	-0-	93,500
Total	1,636,000	859,047	2,495,047

See Independent Auditor's Report

**FARMDALE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 11 – SHORT TERM BORROWINGS AND KIA GRANT RECEIVABLE

During 2023, the District took out two short-term loans with Community Trust Bank to aid in the purchase of a used vehicle for the maintenance department and a new excavator. The District has been approved for grant funding from the Kentucky Infrastructure Authority (KIA) in the amount of \$113,084 for these and other various necessary equipment purchases needed to improve water service, but the funds were not yet available in 2023 and are expected to be received in 2024. Because the District needed the equipment as soon as possible, rather than waiting for the grant funds, the vehicle was financed for \$14,331 and the excavator was financed for \$53,938, each at 6.5% interest payable monthly. Interest expense on these loans for the year ended December 31, 2023 was \$959, and no principal payments were made. The loan principal for each loan is due to be paid in full on July 2, 2024, by which time the District expects to have received the KIA grant funding needed to pay the full balances.

NOTE 12 – PRIOR YEAR ERROR CORRECTION

The financial statements for the year ended December 31, 2022 have been restated to correct an error. It was noted during the current year’s audit of accounts receivable that the prior year accounts receivable calculation included an error causing it to be understated by \$51,469. Because the District bills for November and December water usage in the following January and February, in order to accurately calculate accounts receivable for any given year end, both months must be accounted for as part of accounts receivable. Due to an oversight, for the year ended December 31, 2022, only the November billings billed in January 2023 were included in our calculation, and the December usage billed in February 2023 was not accounted for. As a result, accounts receivable was understated by \$51,469. This also caused an understatement of water sales for the same amount, composed of \$32,854 in residential water sales and \$18,615. The correction of this error resulted in the following:

Statement of Net Position Change

	<u>Accounts Receivable</u>	<u>Net Position - Unrestricted</u>
December 31, 2022 as previously reported	\$ 176,865	\$ (1,916)
Additional amounts billed in 2023 for 2022 service	<u>51,469</u>	<u>51,469</u>
December 31, 2022 as restated	<u>\$ 228,334</u>	<u>\$ 49,553</u>

Statement of Revenues, Expenses and Changes in Net Position Changes

	<u>Water - Residential</u>	<u>Water - Commercial</u>	<u>Total</u>
December 31, 2022 as previously reported	\$ 1,074,406	\$ 161,889	\$ 1,236,295
Additional amounts billed in 2023 for 2022 service	<u>32,854</u>	<u>18,615</u>	<u>51,469</u>
December 31, 2022 as restated	<u>\$ 1,107,260</u>	<u>\$ 180,504</u>	<u>\$ 1,287,764</u>

The above changes resulted in an increase to overall change in net position of \$51,469, which went from a decrease of \$197,452 to a decrease of \$145,983.

See Independent Auditor’s Report

HARROD & ASSOCIATES, P.S.C.

Certified Public Accountants

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

To the Board of Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Farmdale Water District ("the District") as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 29, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit for the year ended December 31, 2023, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness, described in the accompanying Schedule of Findings and Responses as item 2023-001. For the year ended December 31, 2022, we identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001, that we considered to be a significant deficiency.

Report on Compliance and Other Matters

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

Farmdale Water District's Response to Finding

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

Purpose of this Report

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



Harrod & Associates, PSC
Frankfort, Kentucky

May 29, 2024

**FARMDALE WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2023 AND 2022**

December 31, 2023

MATERIAL WEAKNESS

2023-001 Preparation of Financial Statements

Condition – As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness in the District’s system of internal control over financial reporting.

Additionally, during the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements in accordance with generally accepted accounting principles. This reliance on the auditor to detect and make these necessary adjustments is considered to be a material weakness in the system of internal control. AU-C Section 265 does not make exceptions for reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

Communication of the material weakness above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor. Stated another way, if an organization is unable to issue, without the auditor’s involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles and free of material misstatement, that inability is a symptom of a material weakness in the system of internal control.

Criteria – A good system of internal control would include personnel with adequate education, skill, experience, and knowledge to create needed journal entries and proper GAAP financial statements and footnotes.

Cause – The District does not have an employee on staff with adequate education, skill, experience, and knowledge to prepare a full set of GAAP financial statements with footnote disclosures, and it would be cost prohibitive to hire one.

Effect – The organization is unable to issue, without the auditor’s involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles.

Management Response – The District engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal, engineering, and other professional services. Based on the auditor’s unmodified opinion and after reading the financial statements, management believes the financial statements to be materially correct. Management does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

**FARMDALE WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
DECEMBER 31, 2023 AND 2022**

December 31, 2022

SIGNIFICANT DEFICIENCY

2022-001 Segregation of Check Writing Responsibilities

Condition – The District office manager has signatory authority on most of the checks written. The office manager prepares all checks thus allowing the preparer of the check to potentially have control over the entire process. Even though the District requires dual signatures on checks written out of the operations account, the bank no longer reviews checks for dual signatures. We believe internal control would be strengthened by removing the office manager as an authorized signor.

Criteria – A good system of internal control requires essential duties should be effectively segregated.

Cause – Due to a shortage of personnel the District does not have adequate staff to segregate all duties to effectively segregate duties.

Effect – Inadequate controls could adversely affect the District’s ability to detect misstatements in amounts that would be significant in relation to the financial statements and/or to timely detect fraudulent activity.

Recommendation – We strongly recommend the District remove the office manager as an authorized signor of checks.

Management Response – The District is aware of the deficiency in internal control. The District will consider implementing these changes.

**FARMDALE WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2023 AND 2022**

SIGNIFICANT DEFICIENCY

2022-001 Segregation of Check Writing Responsibilities

Current Status – Resolved. The District’s board removed the office manager, Jan Sanders, from all bank accounts in July 2023 after hearing our recommendation. Checks are now prepared by the office manager, then given to the board treasurer for approval and signature, then signed by a secondary signor, before being returned to the office manager for mailing. This represents a vast improvement in internal control, as it removes the office manager’s previous ability to control the entire process and more effectively segregates authorization and recording duties.

REQUIRED SUPPLEMENTARY INFORMATION

**FARMDALE WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE I
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY OF COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total CERS Net Pension Liability (\$ in thousands)	\$ 6,416,509	\$ 7,229,013	\$ 6,375,785	\$ 7,669,917	\$ 7,033,045	\$ 6,090,305	\$ 5,853,443	\$ 4,299,525	\$ 3,244,377
Proportion of the Collective Net Pension Liability	0.004082%	0.004691%	0.004952%	0.004230%	0.003340%	0.006130%	0.005460%	0.005320%	0.006000%
Proportionate Share of the Net Pension Liability	\$ 261,922	\$ 339,113	\$ 315,793	\$ 324,514	\$ 234,693	\$ 373,153	\$ 319,298	\$ 261,970	\$ 257,923
Covered Employee Payroll	\$ 147,220	\$ 168,764	\$ 162,665	\$ 138,937	\$ 81,093	\$ 125,739	\$ 148,407	\$ 120,993	\$ 138,847
Proportionate Share of the Net Pension Liability as a % of Covered Employee Payroll	177.91%	200.94%	194.14%	233.57%	289.41%	296.77%	215.15%	216.52%	185.76%
Total Plan's Fiduciary Net Position (\$ in thousands)	\$ 8,672,597	\$ 7,963,586	\$ 8,565,652	\$ 7,027,327	\$ 7,159,921	\$ 7,018,963	\$ 6,687,237	\$ 6,440,800	\$ 6,528,146
Total Plan's Pension Liability (\$ in thousands)	\$ 15,089,106	\$ 15,192,599	\$ 14,941,437	\$ 14,697,244	\$ 14,192,966	\$ 13,109,268	\$ 12,540,545	\$ 10,740,325	\$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a % of Total Pension Liability	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	59.97%	66.80%

Note: This is intended to be a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

See Independent Auditors' Report and Accompanying
Notes to the Required Supplementary Information

**FARMDALE WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE 2
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

SCHEDULE OF PENSION CONTRIBUTIONS TO COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contributions	\$ 27,725	\$ 29,552	\$ 24,418	\$ 26,273	\$ 20,627	\$ 24,042	\$ 28,103	\$ 26,755	\$ 31,828
Less: Contributions	<u>27,725</u>	<u>29,552</u>	<u>24,418</u>	<u>26,273</u>	<u>20,627</u>	<u>24,042</u>	<u>28,103</u>	<u>26,755</u>	<u>31,828</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	147,220	168,764	162,665	138,937	81,093	125,739	148,407	120,993	138,847
Contributions as a % of Covered Employee Payroll	18.83%	17.51%	15.01%	18.91%	25.44%	19.12%	18.94%	22.11%	22.92%

Note: This is intended to be a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

See Independent Auditors' Report and Accompanying
Notes to the Required Supplementary Information

**FARMDALE WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE 3
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY/(ASSET) OF COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total CERS Net OPEB Liability/(Asset) (\$ in thousands)	\$ (138,067)	\$ 1,973,514	\$ 1,914,450	\$ 2,414,696	\$ 1,681,955	\$ 1,775,480
Proportion of the Collective Net OPEB Liability/(Asset)	0.004082%	0.004691%	0.004952%	0.00423%	0.00334%	0.00613%
Proportionate Share of the Net OPEB Liability/(Asset)	\$ (5,636)	\$ 92,578	\$ 94,804	\$ 102,142	\$ 56,110	\$ 108,784
Covered Employee Payroll	\$ 147,220	\$ 168,764	\$ 162,665	\$ 138,937	\$ 81,093	\$ 125,739
Proportionate Share of the Net OPEB Liability/(Asset) as a % of Covered Employee Payroll	-3.83%	54.86%	58.28%	73.52%	69.19%	86.52%
Total OPEB Plan's Fiduciary Net Position (\$ in thousands)	\$ 3,398,375	\$ 3,079,984	\$ 3,246,801	\$ 2,581,613	\$ 2,569,511	\$ 2,414,126
Total OPEB Plan's OPEB Liability/(Asset) (\$ in thousands)	\$ 3,260,308	\$ 5,053,498	\$ 5,161,251	\$ 4,996,309	\$ 4,251,466	\$ 4,189,606
Total OPEB Plan's Fiduciary Net Position as a % of Total OPEB Liability/(Asset)	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%

Note: This is intended to be a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

See Independent Auditors' Report and Accompanying
Notes to the Required Supplementary Information

**FARMDALE WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE 4
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

SCHEDULE OF OPEB CONTRIBUTIONS TO COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily Required Contributions	\$ 4,017	\$ 5,410	\$ 6,022	\$ 5,159	\$ 5,719	\$ 7,802
Less: Contributions	<u>4,017</u>	<u>5,410</u>	<u>6,022</u>	<u>5,159</u>	<u>5,719</u>	<u>7,802</u>
Contribution Deficiency (Excess)	-	-	-	-	-	-
Covered Employee Payroll	\$ 147,220	\$ 168,764	\$ 162,665	\$ 138,937	\$ 81,093	\$ 125,739
Contributions as a % of Covered Employee Payroll	2.73%	3.21%	3.70%	3.71%	7.05%	6.20%

Note: This is intended to be a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

See Independent Auditors' Report and Accompanying
Notes to the Required Supplementary Information

**FARMDALE WATER DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 1 – GENERAL INFORMATION

A. NET PENSION LIABILITY

The measurement date is six months preceding the year end of the District.

B. NET OPEB LIABILITY

The measurement date is six months preceding the year end of the District.

C. CONTRIBUTIONS

Contractually required employer contributions reported on the Schedule of Pension Contributions to CERS 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 OPEB Contributions to CERS.

D. PAYROLL

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability of CERS and the Schedule of Proportionate Share of the Net OPEB Liability of CERS is one year prior to the Commission's fiscal year payroll as reported on the Schedule of Pension Contributions to CERS and Schedule of OPEB Contributions to CERS.

NOTE 2 – CHANGES IN ASSUMPTIONS

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of each fiscal year, for both pension and OPEB:

A. JUNE 30, 2023 – PENSION AND OPEB

The discount rate used to calculate the total pension liability increased from 6.25% to 6.50%. The discount rate used to calculate the total OPEB liability/(asset) increased from 5.70% to 5.93%.

B. JUNE 30, 2022 – PENSION AND OPEB

The discount rate used to calculate the total OPEB liability increased from 5.2% to 5.7%.

C. JUNE 30, 2021 – PENSION AND OPEB

The initial healthcare trend rate for pre-65 was changed from 6.4% to 6.3%. The initial healthcare trend rate for post-65 was changed from 2.9% to 6.3%.

D. JUNE 30, 2020 – PENSION AND OPEB

The initial healthcare trend rate for pre-65 was changed from 7% to 6.4%. The initial healthcare trend rate for post-65 was changed from 5% to 2.9%.

See Independent Auditor's Report

**FARMDALE WATER DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 2 – CHANGES IN ASSUMPTIONS (Continued)

E. JUNE 30, 2019 – PENSION AND OPEB

The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average.

F. JUNE 30, 2018 – PENSION AND OPEB

None.

G. JUNE 30, 2017 – PENSION AND OPEB

- 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%; and
- Payroll growth assumption was reduced from 4% to 2%;

H. JUNE 30, 2016 – PENSION AND OPEB

None.

I. JUNE 30, 2015 – PENSION

- 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 0.75%;
- 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 (setback 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; and
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

J. JUNE 30, 2014 – PENSION

None.

K. JUNE 30, 2013 – PENSION

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

See Independent Auditor's Report