

McCreary County Water District
Water and Sewer Divisions

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Independent Auditor's Report
and Combined Financial Statements
December 31, 2023 and 2022

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

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**McCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023 AND 2022**

Our discussion and analysis of the McCreary County Water District, Water and Sewer Divisions' financial performance provides an overview of the Company's financial activities for the years ended December 31, 2023 and 2022. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ended December 31, 2023, total operating and non-operating revenues (including capital contributions) totaled \$7,925,208 and operating expenses and non-operating expenses amounted to \$7,303,392 creating an increase in net position of \$621,816. At year end, net position totaled \$25,244,030 of which \$26,280,823 (net of related debt) was invested in capital assets, and \$637,955 was restricted for debt service and construction. This left a net amount of \$(1,674,748) of unrestricted net position.

For the year ended December 31, 2022, total operating and non-operating revenues (including capital contributions) totaled \$7,922,948 and operating expenses and non-operating expenses amounted to \$7,122,541, creating an increase in net position of \$800,407. At year end, net position totaled \$24,622,214 of which \$26,334,801 (net of related debt) was invested in capital assets, and \$1,137,933 was restricted for debt service and construction. This left a net amount of \$(2,850,520) of unrestricted net position.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis, Financial Statements and Supplementary information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of McCreary County Water District, Water and Sewer Divisions report information of the Company using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to utility creditors (liabilities). It also provides the basis for evaluation of the capital structure of the utility and assessing the liquidity and financial flexibility of the utility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the utility's operations over the past year and can be used to determine whether the utility has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**McCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023 AND 2022**

Condensed Comparative Financial Analysis:

McCreary County Water District
Water and Sewer Divisions
Statements of Net Position-Summary
December 31, 2023 and 2022

Assets	<u>2023</u>	<u>2022</u>
Total Current Assets	\$ 3,035,542	\$ 2,565,189
Total Restricted Assets	709,269	1,137,933
Net Capital Assets	<u>41,565,437</u>	<u>41,140,964</u>
Total Assets	<u>\$ 45,310,248</u>	<u>\$ 44,844,086</u>
 Deferred Outflows of Resources	 <u>1,483,321</u>	 <u>1,293,383</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 46,793,569</u>	<u>\$ 46,137,469</u>
 Liabilities		
Total Current Liabilities	\$ 2,181,407	\$ 2,105,674
Total Non-current Liabilities	17,377,617	18,515,090
Total Liabilities	<u>\$ 19,559,024</u>	<u>\$ 20,620,764</u>
 Deferred Inflows of Resources	 <u>\$ 1,990,515</u>	 <u>\$ 894,491</u>
 Net Position:		
Invested in capital assets, net of related debt	\$ 26,280,823	\$ 26,334,801
Restricted for debt service and construction	637,955	1,137,933
Unrestricted	<u>(1,674,748)</u>	<u>(2,850,520)</u>
Total Net Position	<u>\$ 25,244,030</u>	<u>\$ 24,622,214</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 46,793,569</u>	 <u>\$ 46,137,469</u>

The largest portion per year (104.11% and 106.96% respectively) of the utility's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The utility used these capital assets to provide services to citizens and consumers. Consequently, these assets are not available for future spending.

Restricted net position per year (2.53% and 4.62% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (-6.64% and -11.58% respectively) of unrestricted net position may be used to meet the utility's ongoing obligations to citizens, consumers and creditors.

**McCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023 AND 2022**

McCreary County Water District
Water and Sewer Divisions
Statements of Operations
For the Years Ended December 31, 2023 and 2022

	2023	2022
Total operating revenues	\$ 6,628,225	\$ 6,092,339
Total operating expenses	6,926,907	6,812,113
Operating loss	(298,682)	(719,774)
Net non-operating expenses	(32,388)	(73,681)
Loss before capital contributions	(331,070)	(793,455)
Capital contributions	952,886	1,593,862
Change in net position	621,816	800,407
Beginning of year	24,622,214	23,821,807
End of year	\$ 25,244,030	\$ 24,622,214

During 2023, net position increased by \$621,816 and consisted of an operating loss of (\$298,682), net non-operating revenue and expenses of (\$32,388) and capital contributions of \$952,886.

During 2022, net position increased by \$800,407 and consisted of an operating loss of (\$719,774), net non-operating revenue and expenses of (\$73,681) and capital contributions of \$1,593,862.

Capital Asset Changes

At December 31, 2023, the Utility had invested \$41,565,437 in capital assets, net of accumulated depreciation. This amount represents a net increase of \$424,473 from the previous year. The net increase consisted of additions to capital assets of \$2,132,787 less depreciation expense of \$1,708,314. The additions were mainly financed with proceeds of debt borrowings.

At December 31, 2022, the Utility had invested \$41,140,964 in capital assets, net of accumulated depreciation. This amount represents a net increase of \$2,127,899 from the previous year. The net increase consisted of additions to capital assets of \$3,741,025 less depreciation expense of \$1,613,126. The additions were mainly financed with proceeds of debt borrowings.

Debt Administration

At December 31, 2023, the utility had total debt equal to \$15,284,614 which consisted of \$14,200,941 of bonds outstanding, \$1,083,673 of notes payable, and capital leases of \$0. At the beginning of the year total debt equaled \$14,806,163. The increase in debt of \$478,451 was due to additions to debt of \$1,639,822 less scheduled principal payments of \$1,161,371.

**McCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023 AND 2022**

At December 31, 2022, the utility had total debt equal to \$14,806,163 which consisted of \$14,234,835 of bonds outstanding, \$571,328 of notes payable, and capital leases of \$0. At the beginning of the year total debt equaled \$13,197,626. The increase in debt of \$1,608,537 was due to additions to debt of \$2,744,292 less scheduled principal payments of \$1,135,755.

Other Matters

During 2015, the District implemented GASB No. 68, Accounting and Financial Reporting for Pensions. This standard requires cost sharing governments to report a net pension liability, pension expense and pension related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the governments in the plan; therefore, included in long term liabilities is a net pension liability of \$3,314,383 for 2023, and \$3,343,490 for 2022.

During 2018, the District retrospectively implemented GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). This standard requires cost-sharing governments to report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the participants in the plan. Therefore, included in long-term liabilities is a net OPEB liability of \$0 for 2023 and \$912,612 for 2022.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of McCreary County Water District, Water and Sewer Divisions' finances and to demonstrate the utility's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the McCreary County Water District, Whitley City, Kentucky.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
McCreary County Water District
Water and Sewer Divisions
Whitley City, Kentucky 42653

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying combined financial statements of the business-type activities of McCreary County Water District, Water and Sewer Divisions 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 as listed in the table of contents.

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

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the 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 for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as

well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of proportionate share of the net pension and OPEB liabilities and the schedule of contributions on pages 1 through 4 and 40 through 45 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise McCreary County Water District, Water and Sewer Divisions' basic financial statements. The accompanying combining statements of net position, revenues, expenses and changes in net position, and cash flows are presented for purposes of additional analysis, and are not a required part of the combined financial statements of the McCreary County Water District, Water and Sewer Divisions. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements,*

Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position, revenues, expenses and changes in net position, and cash flows, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2024, on our consideration of McCreary County Water District, Water and Sewer Divisions' 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the McCreary County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCreary County Water District's internal control over financial reporting and compliance.

Faulkner, King & Wenz, PSC

September 24, 2024

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF NET POSITION
DECEMBER 31, 2023 and 2022**

ASSETS

	2023	2022
Current assets:		
Cash and cash equivalents	\$ 1,472,756	\$ 710,520
Unbilled revenues	436,643	473,887
Accounts receivable	625,562	577,019
Other receivables	214,978	598,703
Inventory	284,471	203,928
Prepaid expenses	<u>1,132</u>	<u>1,132</u>
Total current assets	<u>3,035,542</u>	<u>2,565,189</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	195,940	175,480
Investments	442,015	962,453
Net OPEB asset	71,314	-
Capital assets:		
Utility plant	72,193,782	67,742,201
Less accumulated depreciation	(32,101,933)	(30,411,320)
Construction in process	<u>1,473,588</u>	<u>3,810,083</u>
Total non-current assets	<u>42,274,706</u>	<u>42,278,897</u>
Deferred Outflows of Resources:		
Deferred outflows - OPEB	473,099	492,083
Deferred outflows - pension	<u>1,010,222</u>	<u>801,300</u>
Total deferred outflows	<u>1,483,321</u>	<u>1,293,383</u>
Total assets and deferred outflows of resources	<u>\$ 46,793,569</u>	<u>\$ 46,137,469</u>

LIABILITIES

Current liabilities:		
Accounts payable	\$ 424,370	\$ 1,070,997
Accrued interest	124,941	129,348
Taxes payable	25,837	25,711
Other accrued liabilities	337,103	290,093
Customer deposits	47,776	42,350
Notes payable - current	728,695	77,432
Revenue bonds - current portion	<u>492,685</u>	<u>469,743</u>
Total current liabilities	<u>2,181,407</u>	<u>2,105,674</u>
Non-current liabilities:		
Revenue bonds - net current portion	13,708,256	13,765,092
Notes payable	354,978	493,896
Net OPEB liability	-	912,612
Net pension liability	<u>3,314,383</u>	<u>3,343,490</u>
Total non-current liabilities	<u>17,377,617</u>	<u>18,515,090</u>
Total liabilities	<u>19,559,024</u>	<u>20,620,764</u>
Deferred Inflows of Resources		
Deferred inflows - OPEB	1,274,486	488,865
Deferred inflows - pension	<u>716,029</u>	<u>405,626</u>
Total deferred inflows	<u>1,990,515</u>	<u>894,491</u>

NET POSITION

Invested in capital assets, net of related debt	26,280,823	26,334,801
Restricted for debt service and construction	637,955	1,137,933
Unrestricted	<u>(1,674,748)</u>	<u>(2,850,520)</u>
Total net position	<u>25,244,030</u>	<u>24,622,214</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 46,793,569</u>	<u>\$ 46,137,469</u>

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

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

	2023	2022
Operating revenues		
Residential sales	\$ 3,347,669	\$ 3,211,949
Commercial sales	522,800	492,435
Industrial sales	143,014	135,959
Governmental sales	2,450,452	1,927,418
Other sales	164,290	324,578
Total operating revenues	6,628,225	6,092,339
Operating expenses		
General and administrative costs	261,756	206,810
Payroll and related expenses	3,088,671	3,055,754
Repairs and maintenance	307,536	327,956
Other supplies and expenses	1,560,630	1,608,467
Depreciation and amortization	1,708,314	1,613,126
Total operating expenses	6,926,907	6,812,113
Operating loss	(298,682)	(719,774)
Nonoperating revenues (expenses)		
Interest income	44,704	8,604
Other income	299,393	228,143
Interest expense	(376,485)	(310,428)
Net nonoperating expenses	(32,388)	(73,681)
Loss before contributions	(331,070)	(793,455)
Capital grants received	952,886	1,593,862
Change in net position	621,816	800,407
Total net position		
beginning of year	24,622,214	23,821,807
Total net position		
end of year	\$ 25,244,030	\$ 24,622,214

The accompanying notes are an integral part of the financial statements

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Cash Flows from Operating Activities		
Cash received from customers	\$ 7,000,651	\$ 5,553,414
Operating expenses:		
General and administrative	(261,756)	(206,810)
Payroll and related expenses	(3,052,990)	(2,961,699)
Repairs and maintenance	(307,536)	(327,956)
Other supplies and expenses	(2,235,238)	(1,173,220)
Net cash provided by operating activities	1,143,131	883,729
 Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,132,787)	(3,741,025)
Principal paid on debt	(1,161,371)	(1,135,755)
Proceeds from debt borrowings	1,639,822	2,744,292
Interest paid on debt	(380,892)	(324,120)
Capital contributions	952,886	1,593,862
Net cash used in capital and related financing activities	(1,082,342)	(862,746)
 Cash Flows from Investing Activities		
Interest income from investments	44,704	8,604
Other cash receipts	299,393	228,143
Net cash provided by investing activities	344,097	236,747
 Net increase in cash, cash equivalents, and restricted cash	404,886	257,730
 Cash, cash equivalents, and restricted cash at beginning of year	1,848,453	1,590,723
 Cash, cash equivalents, and restricted cash at end of year	\$ 2,253,339	\$ 1,848,453
 Unrestricted cash and cash equivalents	\$ 1,472,756	\$ 710,520
Restricted cash and cash equivalents	637,955	1,137,933
 Total cash and cash equivalents, at end of year	\$ 2,110,711	\$ 1,848,453

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

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (298,682)	\$ (719,774)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,708,314	1,613,126
Bad debt expense	5,181	-
Change in assets and liabilities:		
Decrease (increase) in receivables	367,245	(538,925)
Increase in inventories	(80,543)	(27,847)
Increase (decrease) in accounts payable	(646,627)	465,186
Increase in customer deposits	5,426	2,479
Increase (decrease) in accrued expenses	47,136	(4,571)
Increase (decrease) in net OPEB obligation	(36,693)	101,975
Increase (decrease) in net pension obligation	72,374	(7,920)
Net cash provided by operating activities	\$ 1,143,131	\$ 883,729

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the McCreary County Water District, Water and Sewer Divisions (the District) conform to accounting principles generally accepted in the United States of America (GAAP). The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

Reporting Entity

The District, consisting of McCreary County Water District Water Division, and McCreary County Water District Sewer Division has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water and sewer service within the confines of McCreary County, Kentucky and East Pine Knot Estates. McCreary County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it: is legally separate; holds corporate powers of organization; the Fiscal Court does not impose their will upon the District; and the District does not impose financial benefit or burden upon the Fiscal Court.

Basis of Presentation

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, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "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 through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The District is an individual fund and is accounted for as a business-type activity fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The District's financial statements are prepared on the accrual basis of accounting. By utilizing this method, revenues are recognized when they are earned, and expenses are recognized as they are incurred.

Operating income reported in the financial statements includes revenues and expenses related to the continuing operation of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Use of Estimates and Assumptions

In preparing financial statements that conform with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Accordingly, actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the allowance for doubtful accounts for accounts receivable.

Compensated Absences

Vacation - Vacation days are accrued at the following rate:

- 5 days per year for years 1-3
- 10 days per year for years 3-10
- 15 days per year for years 10-15
- 20 days per year for years 15-xx

These days are carried over if unused to a maximum of 30 days; however, all full-time employees with over three years must take ten days of vacation per year.

Sick - Employees earn two sick days for every two months of employment and may carry over a total of twelve days.

These unpaid compensated absences, if applicable, are recorded as accrued liabilities.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturity of ninety days or less to be cash equivalents.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management closely monitors outstanding balances and writes off balances that are deemed to be uncollectible. The allowance for doubtful accounts of \$268,781 and \$228,200 for the years ended December 31, 2023 and 2022 has been established to reserve for those balances that the entity believes to be uncollectible.

Inventories

Inventories are stated at the lower of cost or market on the basis of "first-in, first-out" (FIFO) inventory method.

Capital and operating grants

Grants that are restricted to the purchase or construction of capital assets are recorded as other income, per GASB 33. The District received \$952,886 and \$1,593,862 in grants for the years ended December 31, 2023 and 2022 respectively.

Capital Assets

Utility plant is stated at original cost and depreciated over its estimated useful lives using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. Renewals and betterments are capitalized. The range of useful lives used in computing depreciation is:

<u>Classification</u>	<u>Range of lives</u>
Buildings	40 years
Water systems	40 years
Machinery & equipment	5 years

Total depreciation expense was \$1,708,314 and \$1,613,126 for the years ended December 31, 2023 and 2022 respectively.

Pensions

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

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease Accounting

The District leases office space and space on its water towers to three utility companies. Rent income on these leases for 2023 and 2022 was \$57,978.

The District considered the guidance on GASB 87, leases, to be first effective for calendar year 2022. This guidance can affect the accounting and disclosures for both lessors and lessees. The standard establishes a model for lease accounting based on the principle that leases are financings of the right to use an underlying asset.

After calculating the impact of the guidance on GASB 87, District management determined that the resulting differences were not material to the financial statements as historically presented. Accordingly, GASB 87 has not been adopted.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be FDIC insured banking institutions; depositories must fully insure or collateralize all demand and time deposits and repurchase agreements; and securities collateralizing repurchase agreements are to be held by independent third parties.

Bank Deposits

The fair market value of deposits was equivalent to the reported values. All deposits are checking or savings accounts. The carrying amount of the District's bank deposits was \$1,666,896 and \$884,200 for the years ended December 31, 2023 and 2022 respectively and the respective bank balances totaled \$2,105,610 and \$1,125,212 respectively for the years then ended. The bank balances are covered by \$250,000 of FDIC insurance. The remaining bank balances are fully collateralized with securities held by the pledged financial institution in the institution's name. The deposits are categorized to give 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.
- Category 4 - Unsecured

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits at December 31, 2023, categorized by level of risk, are:

	Risk Category				Bank	Book
	1	2	3	4	Balance	Value
Unrestricted deposits						
Operating accounts	\$ 144,490	\$ -	\$1,654,163	\$ -	\$1,798,653	\$1,359,939
Depreciation funds	-		-	-	-	-
Restricted deposits						
Debt service and						
Depreciation funds	<u>105,510</u>	<u>-</u>	<u>201,447</u>	<u>-</u>	<u>306,957</u>	<u>306,957</u>
Total deposits	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$1,855,610</u>	<u>\$ -</u>	<u>\$2,105,610</u>	<u>\$1,666,896</u>

Deposits at December 31, 2022, categorized by level of risk, are:

	Risk Category				Bank	Book
	1	2	3	4	Balance	Value
Unrestricted deposits						
Operating accounts	\$ 146,096	\$ -	\$ 595,748	\$ 44,617	\$ 786,461	\$ 545,449
Depreciation funds	-		-	-	-	-
Restricted deposits						
Debt service and						
Depreciation funds	<u>103,904</u>	<u>-</u>	<u>234,847</u>	<u>-</u>	<u>338,751</u>	<u>338,751</u>
Total deposits	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$830,595</u>	<u>\$ 44,617</u>	<u>\$1,125,212</u>	<u>\$ 884,200</u>

The District also had \$1,800 and \$1,800 of petty cash on hand for the years ended December 31, 2023 and 2022 respectively.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

At December 31, 2023 and 2022, the District's investments included the Federated Treasury Obligations Fund (a money market fund). The investments are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

- Category 1 - Investments that are insured, registered or for which the securities are held by the District or its agent in the District's name.
- Category 2 - Uninsured and unregistered investments for which the securities are held by the bank's trust departments or agents in the District's name.
- Category 3 - Uninsured and unregistered investments for which the securities are held by the banks, or by their trust departments or agents but not in the District's name.

Investments at December 31, 2023 categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	<u>\$442,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$442,015</u>	<u>\$442,015</u>
Total investments	<u>\$442,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$442,015</u>	<u>\$442,015</u>

Investments at December 31, 2022, categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	<u>\$962,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$962,453</u>	<u>\$962,453</u>
Total investments	<u>\$962,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$962,453</u>	<u>\$962,453</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 3 - RESTRICTED ASSETS

The restricted assets in the accompanying financial statements are restricted as to use by ordinance (Note 7), external parties or by board designation. A schedule of restricted assets at December 31, 2023 and 2022 are:

A schedule of restricted assets at December 31, 2023 are:

	Cash	Investments at cost	Total
Debt service and Depreciation funds	\$ 195,940	\$ -	\$ 195,940
Construction funds	-	-	-
Treasury MM fund	<u>-</u>	<u>442,015</u>	<u>442,015</u>
Total restricted assets	<u>\$ 195,940</u>	<u>\$ 442,015</u>	<u>\$ 637,955</u>

A schedule of restricted assets at December 31, 2022 are:

	Cash	Investments at cost	Total
Debt service and Depreciation funds	\$ 175,480	\$ -	\$ 175,480
Construction funds	-	-	-
Treasury MM Fund	<u>-</u>	<u>962,453</u>	<u>962,453</u>
Total restricted assets	<u>\$ 175,480</u>	<u>\$ 962,453</u>	<u>\$ 1,137,933</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 4 - CAPITAL ASSETS

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

	Balance 12/31/2022	Additions	Disposals	Transfers	Balance 12/31/2023
Operating fixed assets:					
Land	\$ 430,269	\$ 36,000	\$ -	\$ -	\$ 466,269
Buildings & Improvements	22,469,303	18,000	-	-	22,487,303
Treatment equipment	3,493,710	-	-	-	3,493,710
Distributions	27,787,753	46,994	-	697,374	28,532,121
Services/meters	3,938,599	75,320	-	-	4,013,919
Other equipment	<u>9,622,567</u>	<u>218,899</u>	<u>(19,500)</u>	<u>3,378,494</u>	<u>13,200,460</u>
	67,742,201	395,213	(19,500)	4,075,868	72,193,782
Accumulated depreciation	<u>(30,411,320)</u>	<u>(1,710,113)</u>	<u>19,500</u>	<u>-</u>	<u>(32,101,933)</u>
	37,330,881	(1,314,900)	-	4,075,868	40,091,849
Construction in progress	<u>3,810,083</u>	<u>1,739,373</u>	<u>-</u>	<u>(4,075,868)</u>	<u>1,473,588</u>
Utility plant, net	<u>\$41,140,964</u>	<u>\$ 424,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$41,565,437</u>

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

	Balance 12/31/2021	Additions	Disposals	Transfers	Balance 12/31/2022
Operating fixed assets:					
Land	\$ 430,269	\$ -	\$ -	\$ -	\$ 430,269
Buildings & Improvements	22,469,303	-	-	-	22,469,303
Treatment equipment	3,483,030	10,680	-	-	3,493,710
Distributions	25,749,614	753,322	-	1,284,817	27,787,753
Services/meters	3,844,691	93,908	-	-	3,938,599
Other equipment	<u>9,449,869</u>	<u>172,698</u>	<u>-</u>	<u>-</u>	<u>9,622,567</u>
	65,426,776	1,030,608	-	1,284,817	67,742,201
Accumulated depreciation	<u>(28,798,194)</u>	<u>(1,613,126)</u>	<u>-</u>	<u>-</u>	<u>(30,411,320)</u>
	36,628,582	(582,518)	-	1,284,817	37,330,881
Construction in progress	<u>2,384,483</u>	<u>2,710,417</u>	<u>-</u>	<u>(1,284,817)</u>	<u>3,810,083</u>
Utility plant, net	<u>\$39,013,065</u>	<u>\$ 2,127,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$41,140,964</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 5 - LONG-TERM DEBT

Outstanding long-term debt consists of revenue bonds collateralized by the revenues of the District. Revenues of the District are to be used first to pay operating and maintenance expenses and second to establish and maintain the revenue bond funds. The District is in compliance with all significant financial requirements as of December 31, 2023.

The District's bonded indebtedness and other long-term debt at December 31, 2023 and 2022, are summarized as follows:

<u>Debt Description</u>	<u>Rate</u>	<u>Original Issue</u>	<u>Principal O/S 2023</u>	<u>Principal O/S 2022</u>
Water District				
BB&T	3.945%	797,355	435,465	512,897
RD Series 2013 A	Variable	1,415,000	465,000	555,000
RD 2013 Series D	1.875%	635,000	528,500	541,500
RD Series 2020E	Variable	495,000	475,000	485,000
RD Series 2020E	Variable	984,537	927,580	956,058
RD Series 2012 D	Variable	3,205,000	2,175,000	2,285,000
RD Series 2012 D-1	Variable	1,935,000	1,092,000	1,117,500
RD Series 2015	2.500%	1,158,000	1,054,500	1,073,000
RD Series 2020E	Variable	1,535,306	1,262,500	1,283,500
RD Series 2021	1.750%	542,000	523,500	533,000
RD Series 2023	1.875%	615,000	615,000	-
KIA F21-025	.250%	245,000	241,465	245,000
KIA CD2-01	1.000% *	1,510,000	198,194	276,098
United Cumberland	3.160%	58,431	58,431	58,431
Regions Bank	4.500	615,000	-	615,000
Sewer District				
KIA A20-047	.50% *	3,568,950	3,335,282	2,900,237
RD Series 2020E	Variable	234,694	212,420	218,942
United Cumberland	6.00%	589,777	589,777	-
RD Series 2012 D	Variable	<u>1,595,000</u>	<u>1,095,000</u>	<u>1,150,000</u>
		21,734,050	15,284,614	14,806,163
Less current maturities			<u>(1,221,380)</u>	<u>(547,175)</u>
Total long-term debt			<u><u>\$14,063,234</u></u>	<u><u>\$14,258,988</u></u>

* The original issue of the KIA CD2-01 loan is \$1,510,000. As of December 31, 2023, the District had borrowed \$1,474,999 of the original amount.

* The original issue of the KIA A20-047 loan is \$3,568,950. As of December 31, 2023, the District had borrowed \$3,335,282 of the original amount.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

	Principal Balance 12/31/2022	Borrowings	Principal Payments	Principal Balance 12/31/2023	Current	Long-Term
Water District						
RD Series 2020E	\$ 485,000	\$ -	\$ 10,000	\$ 475,000	\$ 10,000	\$ 465,000
RD Series 2020E	956,058	-	28,478	927,580	28,478	899,102
2012 Series D	2,285,000	-	110,000	2,175,000	110,000	2,065,000
2012 Series D1	1,117,500	-	25,500	1,092,000	26,000	1,066,000
2013 Series D	541,500	-	13,000	528,500	13,000	515,500
2013 Series A	555,000	-	90,000	465,000	95,000	370,000
2015 Series	1,073,000	-	18,500	1,054,500	19,000	1,035,500
KIA F04-03	276,098	-	77,904	198,194	80,281	117,913
BB&T	512,897	-	77,432	435,465	80,487	354,978
RD Series 2020	1,283,500	-	21,000	1,262,500	21,500	1,241,000
RD Series 2021	533,000	-	9,500	523,500	9,500	514,000
RD Series 2023	-	615,000	-	615,000	10,500	604,500
KIA F21-025	245,000	-	3,535	241,465	7,904	233,561
Regions Bank	615,000	-	615,000	-	-	-
UC Bank	58,431	-	-	58,431	58,431	-
Sewer District						
KIA A20-047	2,900,237	435,045	-	3,335,282	-	3,335,282
Series 2020E	218,942	-	6,522	212,420	6,522	205,898
UC Bank	-	589,777	-	589,777	589,777	-
2012 Series D	1,150,000	-	55,000	1,095,000	55,000	1,040,000
	<u>\$14,806,163</u>	<u>\$ 1,639,822</u>	<u>\$1,161,371</u>	<u>\$15,284,614</u>	<u>\$1,221,380</u>	<u>\$14,063,234</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

	Principal Balance 12/31/2021		Principal Borrowings	Principal Payments	Principal Balance 12/31/2022		Current	Long-Term
Water District								
RD Series 2020E	\$ 495,000	\$ -	\$ -	\$ 10,000	\$ 485,000	\$ 10,000	\$ -	\$ 475,000
RD Series 2020E	984,537	-	-	28,479	956,058	28,478	-	927,580
RD Series 202E-1	524,132	-	-	524,132	-	-	-	-
2012 Series D	2,395,000	-	-	110,000	2,285,000	110,000	-	2,175,000
2012 Series D1	1,142,500	-	-	25,000	1,117,500	25,500	-	1,092,000
2013 Series D	554,000	-	-	12,500	541,500	13,000	-	528,500
2013 Series A	660,000	-	-	105,000	555,000	90,000	-	465,000
2015 Series	1,091,000	-	-	18,000	1,073,000	18,500	-	1,054,500
KIA F04-03	353,228	-	-	77,130	276,098	77,904	-	198,194
BB&T	587,390	-	-	74,493	512,897	77,432	-	435,465
RD Series 2020	1,304,000	-	-	20,500	1,283,500	21,000	-	1,262,500
RD Series 2021	-	542,000	-	9,000	533,000	9,500	-	523,500
KIA F21-025	-	245,000	-	-	245,000	4,339	-	240,661
Regions Bank	-	615,000	-	-	615,000	-	-	615,000
UC Bank	-	58,431	-	-	58,431	-	-	58,431
Sewer District								
KIA A20-047	1,616,376	1,283,861	-	-	2,900,237	-	-	2,900,237
Series 2020E	225,463	-	-	6,521	218,942	6,522	-	212,420
UC Bank	65,000	-	-	65,000	-	-	-	-
2012 Series D	1,200,000	-	-	50,000	1,150,000	55,000	-	1,095,000
	<u>\$13,197,626</u>	<u>\$2,744,292</u>		<u>\$1,135,755</u>	<u>\$14,806,163</u>	<u>\$ 547,175</u>		<u>\$14,258,988</u>

The long-term debt service requirements are as follows:

Year	Principal		Interest		Total	
	Water	Sewer	Water	Sewer	Water	Sewer
2024	\$ 570,081	\$ 651,299	\$ 222,370	\$ 59,116	\$ 792,451	\$ 760,963
2025	534,718	162,871	213,566	53,638	748,284	165,961
2026	498,211	118,509	199,004	50,642	697,215	169,151
2027	422,903	118,764	185,414	47,879	608,317	166,643
2028	430,990	124,022	172,452	44,993	603,442	169,015
2029-2033	1,720,428	655,535	698,158	177,603	2,418,586	833,138
2034-2038	1,607,844	667,749	476,637	90,954	2,084,481	758,703
2039-2043	1,378,198	429,199	285,480	29,457	1,663,678	458,656
2044-2048	1,136,440	311,941	176,456	10,849	1,312,896	322,790
2049-2053	977,822	273,684	91,169	2,607	1,068,991	276,291
2054-2058	514,000	1,718,906	32,381	-	546,381	1,718,906
2059-2063	260,500	-	6,280	-	266,780	-
	<u>\$10,052,135</u>	<u>\$5,232,479</u>	<u>\$2,759,367</u>	<u>\$ 567,738</u>	<u>\$12,811,502</u>	<u>\$5,800,217</u>

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 5 - LONG-TERM DEBT (CONTINUED)

2020 Series E - McCreary County Water and Sewer District Waterworks Revenue Bond, dated September 23, 2020, due in annual installments through February 1, 2050, bearing a variable interest rate.

United Cumberland Bank - Installment loan dated March 15, 2022, with annual interest payments due through March 15, 2024, bearing an interest rate of 3.16%.

2012 Series D - McCreary County Water District Waterworks Revenue Bond, dated May 30, 2012, due in annual installments through January 1, 2040 bearing a variable interest rate.

2012 Series D1 - McCreary County Water District Waterworks Revenue Bond, dated September 30, 2012, due in annual installments through April 1, 2052 bearing a variable interest rate.

2013 Series D - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through October 1, 2052 bearing a variable interest rate.

2013 Series A - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through July 1, 2030 bearing an interest rate of 1.875%.

KIA CD2-01 - As of December 31, 2005 the District had drawn \$1,474,999 on a KIA loan secured by a pledge of revenues. The loan bears an interest rate of 1.00% with a life of twenty years maturing in 2026.

KIA A20-047 - As of December 31, 2021 the District had drawn \$1,616,376 on a KIA loan secured by a pledge of revenues. The loan bears an interest rate of .50% with a life of thirty years maturing in 2052.

2012 Series D - McCreary County Water District Sewer System Revenue Bond, dated May 30, 2012, due in annual installments through February 1, 2041, bearing a variable interest rate.

BB&T Bank - Installment loan dated September 7, 2018, due in annual installments through August 1, 2028, bearing an interest rate of 3.945%

Series 2015 - McCreary County Water District Water System Revenue Bond, dated February 5, 2016, due in annual installments through April 1, 2055, bearing an interest rate of 2.5%.

2021 Series - McCreary County Water District Water System Revenue Bond, dated March 4, 2022, due in annual installments through April 1, 2061 bearing an interest rate of 1.75%.

2023 Series - McCreary County Water District Water System Revenue Bond, dated December 14, 2023, due in annual installments through April 1, 2063 bearing an interest rate of 1.875%.

KIA F21-025 -Installment loan dated February 22, 2022, due in semi-annual installments through December 1, 2052, bearing an interest rate of .25%

United Cumberland Bank - Installment loan dated January 18, 2023, with annual interest payments due through January 18, 2025, bearing an interest rate of 6.00%.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 6 - NET POSITION

GASB Statement No. 34 (as amended by GASB 63) requires the delineation of Net Position as Invested in Property, Plant and Equipment (capital investments), Restricted and Unrestricted.

The balance of capital investments represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by the District, net of outstanding debt. The balance was \$26,280,823 and \$26,334,801 for the years ended December 31, 2023 and 2022 respectively.

The District has the following restricted net position that is reserved in accordance with the District's various bond ordinances (Note 7):

	<u>2023</u>	<u>2022</u>
Construction	\$ -0-	\$ -0-
Depreciation and Debt Service	195,940	175,480
Treasury MM Fund	<u>442,015</u>	<u>962,453</u>
Total Restricted	<u>\$ 637,955</u>	<u>\$ 1,137,933</u>

The District has a balance of \$(1,674,748) and \$(2,850,520) for unrestricted net position at December 31, 2023 and 2022 respectively.

NOTE 7 - COMPLIANCE WITH BOND ORDINANCES

The District is in compliance with its bond ordinances that require the District to maintain certain reserves and restricted assets as follows:

Bond and Interest Fund - In order to fund the McCreary County Water District and Water Sewer debt, the District makes deposits into these funds to pay for current maturing principal portions and associated interest of bond issues.

Bond Sinking Funds - McCreary County Water District is required by ordinances to transfer funds into various sinking funds for future debt retirement.

Depreciation Fund - The bond resolutions authorizing the bond issues of the water and sewer system require transfers into various depreciation funds to be used for plant acquisitions, extensions and extraordinary repairs and maintenance. Transfers can cease when the fund balance reaches specified levels.

The balance in the depreciation and debt service funds as of December 31, 2023 and 2022 equaled \$306,957 and \$338,751 respectively. The required balance is \$195,940 and \$175,480 respectively.

Construction Funds - The District is required to transfer funds into various funds for the use of funding future projects.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as 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 9 - FAIR VALUE MEASUREMENTS

FASB Statement No. 157, *Fair Value Measurements*, as codified by Accounting Standards Codification (ASC) 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The District uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the District measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or 3 inputs were used by the District.

Level 1 Fair Value Measurements

The fair value of the Federated Treasury Obligations Fund (a money market fund) is based on quoted net asset values of the investments held by the District at year-end.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value:

Assets at Fair Value as of December 31, 2023

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$442,015</u>	-	-	<u>\$442,015</u>
Total assets fair value	<u>\$442,015</u>	-	-	<u>\$442,015</u>

Assets at Fair Value as of December 31, 2022

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$962,453</u>	-	-	<u>\$962,453</u>
Total assets at fair value	<u>\$962,453</u>	-	-	<u>\$962,453</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 10 - PENSION PLAN

McCreary County Water District (the District) is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute Sections 78.782 and 61.646, the Kentucky Public Pensions Authority (KPPA) oversees the administration and operation of the personnel and accounting systems for the County Employees Retirement System Nonhazardous Pension Plan (CERS Nonhazardous), which is administered by KPPA. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

Contributions - Participating employers are required to contribute an actuarially determined rate for CERS pension contributions, per Kentucky Revised Statute (KRS) Section 78.545(23). The CERS Board of Trustees establishes the employer contribution rate each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year. For the periods January 1, 2023 through June 30, 2023, and July 1, 2023 through December 31, 2023, the District contributed 26.79% and 23.34%, respectively, of each employee's creditable compensation (covered payroll) to the CERS Nonhazardous Pension Plan, which is equal to the actuarially determined rate set by the Board for each period. The District contributed for the years ended December 31, 2023 and 2022 \$350,857 and \$301,069, respectively, or 100% of the required contribution to the pension plan. Administrative costs of the KPPA are financed through employer contributions and investment earnings.

Plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 and before January 1, 2014 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - As of December 31, 2022, the District reported a liability of \$3,314,383 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022, rolled-forward from the valuation date to June 30, 2023 using generally accepted actuarial principles.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 10 - PENSION PLAN (CONTINUED)

The District's proportion of the net pension liability was determined using the District's actual contributions for the year ended June 30, 2023. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2023, the District's proportion was 0.051654 percent, which is equal to its proportion measured as of June 30, 2023. For the year ended December 31, 2022, the District's proportion was 0.046251 percent, which is equal to its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the District recognized pension expense of \$430,965. As of December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflow of Resources</u>	<u>Inflows of Resources</u>
Effects of changes of assumptions	\$ 0	\$ 303,766
District contributions subsequent to the measurement date	185,486	0
Difference between projected and actual earnings on plan investments	358,047	403,257
Changes in proportion and differences between District contributions and proportionate share of contributions	295,110	0
Differences between expected and actual liability experience	<u>171,579</u>	<u>9,006</u>
Total	<u>\$ 1,010,222</u>	<u>\$ 716,029</u>

The \$185,486 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,

2024	79,427
2025	(12,624)
2026	73,990
2027	(32,086)

Actuarial Assumptions - The total pension liability, net pension liability, and sensitivity information as of June 30, 2023, were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles. There have been no actuarial assumption or method changes since June 30, 2022. Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or because of duty-related disability. The total pension liability as of June 30, 2023, is determined using these updated benefit provisions.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 10 - PENSION PLAN (CONTINUED)

The actuarial assumptions for CERS nonhazardous employees are as follows:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increases	3.30% - 10.30%, varies by service
Investment Rate of Return	6.25%

The mortality table used for active members was the PUB-2010 General Mortality table for the nonhazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for non-disabled retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for disabled members was the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2023 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Specialty Credit	10.00%	3.65%
Core Fixed Income	10.00%	2.45%
Cash	0.00%	1.39%
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Total	100.00%	

Discount Rate - The discount rate used to measure the total pension liability was 6.50 percent as of June 30, 2023. The projection of cash flows used to determine the discount rate assumes that each fund receives the employer required contributions each future year as determined by the current funding policy established in statute, as amended by House Bill 362 (passed in 2018) over the remaining 28 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 10 - PENSION PLAN (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	<u>Discount rate</u>	<u>District's proportionate share of net pension liability</u>
1% decrease	5.50%	\$ 4,184,609
Current discount rate	6.50%	\$ 3,314,383
1% increase	7.50%	\$ 2,591,193

Payable to the Pension Plan - As of December 31, 2023 and 2022, the District reported a payable of \$40,983 and \$43,345, respectively, for the outstanding amount of contributions to the pension plan required for the years then ended. The payable only includes the pension portion of the contribution. Please refer to Note 11 for the amount due to the insurance fund.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN

Under the provisions of Kentucky Revised Statute Section 78.782 and 61.646, the Kentucky Public Pensions Authority (KPPA) oversees the administration and operation of the personnel and accounting systems for the County Employees Retirement System (CERS). McCreary County Water District (the District) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description - The Kentucky Retirement Systems' (KRS) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS, KERS, and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit other post-employment benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the CERS. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Membership in the CERS Nonhazardous Insurance Fund consisted of the following as of June 30, 2023, the date of the latest actuarial valuation:

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Membership Status

Inactive plan members currently receiving benefits:	37,584
Inactive plan members entitled to but not yet receiving benefits:	28,719
Active plan members:	76,946
Total plan members:	<u>143,249</u>

Contributions - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(23), the CERS Board of Trustees establishes employer and member contribution rates each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year.

For the periods January 1, 2023 through June 30, 2023, and July 1, 2023 through December 31, 2023, the District contributed 4.76% and 3.39%, respectively, of each employee's covered payroll to the insurance fund, which is equal to the actuarially determined rate set by the Board. The District contributed for the years ended December 31, 2023 and 2022 \$50,829 and \$53,332, respectively, or 100% of the required contribution to the insurance fund. Administrative costs of the KPPA are financed through employer contributions and investment earnings.

Employees hired after September 1, 2008 are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits and the 1% contribution to the 401(h) account is non-refundable.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - As of December 31, 2023, the District reported a liability of \$(71,314) for its proportionate share of the net OPEB liability. The net OPEB liability (asset) was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022, rolled-forward to June 30, 2023, using generally accepted actuarial principles. The District's proportion of the net OPEB liability was determined using the District's actual contributions for the year ended June 30, 2023. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2023, the District's proportion was 0.051652 percent, which is equal to its proportion measured as of June 30, 2023. For the year ended December 31, 2022, the District's proportion was 0.046251 percent, which is equal to its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the District recognized a decrease in OPEB expense of \$107,752. As of December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Effects of changes of assumptions	\$ 140,341	\$ 97,804
District contributions subsequent to the measurement date (including implicit subsidy)	23,247	-
Differences between projected and actual earnings on plan investments	133,462	150,012
Differences between expected and actual liability experience	49,717	1,012,591
Changes in proportion and differences between District contributions and proportionate share of contributions	126,332	14,079
Total	\$ 473,099	\$ 1,274,486

The \$23,247 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date of \$25,755 and the December 31, 2023 implicit subsidy of \$(2,508), will be recognized as a reduction of the net OPEB 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 OPEB expense as follows:

Year ending December 31,

2024	(204,176)
2025	(250,840)
2026	(193,672)
2027	(175,946)

Implicit Subsidy - The fully insured premiums KPPA pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after the measurement date. McCreary County Water District's implicit subsidy for the years ended December 31, 2023 and 2022 was \$23,247 and \$29,520, respectively.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Actuarial Assumptions - The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2023, were based on an actuarial valuation date of June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles. The actuarial assumptions for CERS nonhazardous employees are as follows:

Inflation	2.30%
Payroll Growth Rate	2.00%, CERS Nonhazardous
Salary Increase	3.30-10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The mortality table used for active members was the PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for non-disabled retired members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for disabled members was the PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2023 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

Senate Bill 249, passed during the 2020 legislative session, changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that were payable starting July 1, 2020.

Senate Bill 169, passed during the 2021 legislative session, increased the disability benefits for certain qualifying members who became "totally and permanently disabled" in the line of duty or as a result of duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Discount Rate - The single discount rate of 5.93% for CERS Nonhazardous is based on the long-term expected rate of return on OPEB plan investments of 6.50% and a long-term municipal bond rate of 3.86% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2023. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the plan's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.75%
Specialty Credit	10.00%	3.65%
Core Fixed Income	10.00%	2.45%
Cash	0.00%	1.39%
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
 Total	 100.00%	

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net OPEB liability calculated using the single discount rate of 5.93 percent, 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 percent) or 1-percentage-point higher (6.93 percent) than the current rate.

<u>Discount rate</u>	<u>District's proportionate share of net OPEB liability</u>
1% decrease	4.93% \$ 133,829
Current discount rate	5.93% \$ (71,314)
1% increase	6.93% \$ (243,097)

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following table presents the District's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in *Actuarial Assumptions* above), as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current rates.

	District's proportionate share of net OPEB liability
1% decrease	\$ (228,574)
Current healthcare	
cost trend rate	\$ (71,314)
1% increase	\$ 121,865

Payable to the OPEB Plan - As of December 31, 2023 and 2022, the District reported a payable of \$9,252 and \$8,785, respectively, for the outstanding amount of contributions to the insurance plan required for the years then ended. The payable only includes the insurance portion of the contribution. Please refer to Note 10 for the amount due to the pension plan.

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events were evaluated through September 24, 2024, which is the date the financial statements were available to be issued.

Supplemental Information

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	McCreary County			Total
	Water	Sewer	Eliminations	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 702,223	\$ 770,533	\$ -	\$ 1,472,756
Unbilled revenues	300,004	136,639	-	436,643
Accounts receivable, net	431,997	193,565	-	625,562
Other receivables	7,049	207,929	-	214,978
Due from associated division	1,893,750	-	(1,893,750)	-
Inventory	233,996	50,475	-	284,471
Prepaid expenses	1,132	-	-	1,132
Total current assets	<u>3,570,151</u>	<u>1,359,141</u>	<u>(1,893,750)</u>	<u>3,035,542</u>
Non-current assets:				
Restricted cash and cash equivalents	82,036	113,904	-	195,940
Investments	442,015	-	-	442,015
Net OPEB asset	5,315	65,999	-	71,314
Capital assets:				
Utility plant	49,112,952	23,080,830	-	72,193,782
Less accumulated depreciation	(21,782,179)	(10,319,754)	-	(32,101,933)
Construction in process	92,148	1,381,440	-	1,473,588
Total non-current assets	<u>27,952,287</u>	<u>14,322,419</u>	<u>-</u>	<u>42,274,706</u>
Deferred outflows of resources:				
Deferred outflows - other post-employment benefits	410,688	62,411	-	473,099
Deferred outflows - pension	853,552	156,670	-	1,010,222
Total deferred outflows	<u>1,264,240</u>	<u>219,081</u>	<u>-</u>	<u>1,483,321</u>
Total assets and deferred outflows of resources	<u>\$ 32,786,678</u>	<u>\$ 15,900,641</u>	<u>\$ (1,893,750)</u>	<u>\$ 46,793,569</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 178,796	\$ 245,574	\$ -	\$ 424,370
Accrued interest	98,280	26,661	-	124,941
Due to associated division	-	1,893,750	(1,893,750)	-
Taxes payable	22,292	3,545	-	25,837
Other accrued liabilities	287,554	49,549	-	337,103
Customer deposits	47,776	-	-	47,776
Notes payable - current	138,918	589,777	-	728,695
Revenue bonds - current portion	431,163	61,522	-	492,685
Total current liabilities	<u>1,204,779</u>	<u>2,870,378</u>	<u>(1,893,750)</u>	<u>2,181,407</u>
Non-current liabilities:				
Revenue bonds - net current portion	9,127,076	4,581,180	-	13,708,256
Notes payable	354,978	-	-	354,978
Net pension liability	2,682,792	631,591	-	3,314,383
Total non-current liabilities	<u>12,164,846</u>	<u>5,212,771</u>	<u>-</u>	<u>17,377,617</u>
Deferred inflows of resources:				
Deferred inflows - other post-employment benefits	1,017,851	256,635	-	1,274,486
Deferred inflows - pension	586,644	129,385	-	716,029
Total deferred inflows	<u>1,604,495</u>	<u>386,020</u>	<u>-</u>	<u>1,990,515</u>
Total liabilities and deferred inflows of resources	<u>\$ 14,974,120</u>	<u>\$ 8,469,169</u>	<u>\$ (1,893,750)</u>	<u>\$ 21,549,539</u>
NET POSITION				
Invested in capital assets, net of related debt	\$ 17,370,786	\$ 8,910,037	-	\$ 26,280,823
Restricted for debt service and construction	524,051	113,904	-	637,955
Unrestricted	(82,279)	(1,592,469)	-	(1,674,748)
Total net position	<u>17,812,558</u>	<u>7,431,472</u>	<u>-</u>	<u>25,244,030</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 32,786,678</u>	<u>\$ 15,900,641</u>	<u>\$ (1,893,750)</u>	<u>\$ 46,793,569</u>

See Independent Auditor's Report.

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

	McCreary County		Total
	Water	Sewer	
Operating revenues			
Residential sales	\$ 2,844,394	\$ 503,275	\$ 3,347,669
Commercial sales	289,375	233,425	522,800
Industrial sales	67,410	75,604	143,014
Governmental sales	1,252,810	1,197,642	2,450,452
Other sales and fees	124,218	40,072	164,290
Total operating revenues	<u>4,578,207</u>	<u>2,050,018</u>	<u>6,628,225</u>
Operating expenses			
General and administrative costs	233,287	28,469	261,756
Payroll and contractual services	2,202,414	886,257	3,088,671
Repairs and maintenance	-	307,536	307,536
Other supplies and expenses	1,048,411	512,219	1,560,630
Depreciation	1,088,577	619,737	1,708,314
Total operating expenses	<u>4,572,689</u>	<u>2,354,218</u>	<u>6,926,907</u>
Operating income (loss)	<u>5,518</u>	<u>(304,200)</u>	<u>(298,682)</u>
Nonoperating revenues (expenses)			
Interest income	41,486	3,218	44,704
Other income	193,475	105,918	299,393
Interest expense	(272,286)	(104,199)	(376,485)
Total nonoperating revenues (expenses)	<u>(37,325)</u>	<u>4,937</u>	<u>(32,388)</u>
Loss before contributions	(31,807)	(299,263)	(331,070)
Capital grants received	<u>161,224</u>	<u>791,662</u>	<u>952,886</u>
Change in net position	129,417	492,399	621,816
Total net position on December 31, 2022	<u>17,683,141</u>	<u>6,939,073</u>	<u>24,622,214</u>
Total net position on December 31, 2023	<u>\$ 17,812,558</u>	<u>\$ 7,431,472</u>	<u>\$ 25,244,030</u>

See Independent Auditor's Report

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF CASH FLOWS
DECEMBER 31, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash received from customers	\$ 4,444,097	\$ 2,556,554	\$ 7,000,651
Operating expenses:			
General and administrative	(233,287)	(28,469)	(261,756)
Payroll and related expenses	(2,283,192)	(912,426)	(3,195,618)
Repairs and maintenance	-	(307,536)	(307,536)
Other supplies and expenses	(1,042,538)	(1,192,700)	(2,235,238)
Net cash provided (used) by operating activities	<u>885,080</u>	<u>115,423</u>	<u>1,000,503</u>
 Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(905,924)	(1,226,863)	(2,132,787)
Principal paid on debt	(1,099,849)	(61,522)	(1,161,371)
Proceeds from debt borrowings	615,000	1,024,822	1,639,822
Interest paid on debt	(276,693)	(104,199)	(380,892)
Capital contributions	161,224	791,662	952,886
Net cash (used) provided in capital and related financing activities	<u>(1,506,242)</u>	<u>423,900</u>	<u>(1,082,342)</u>
 Cash Flows from Investing Activities			
Interest income from investments	41,486	3,218	44,704
Other cash receipts	193,475	105,918	299,393
Net cash provided by investing activities	<u>234,961</u>	<u>109,136</u>	<u>344,097</u>
 Net (decrease) increase in cash and cash equivalents	(386,201)	648,459	262,258
Cash and cash equivalents, at beginning of year	<u>1,612,475</u>	<u>235,978</u>	<u>1,848,453</u>
Cash and cash equivalents, at end of year	<u>\$ 1,226,274</u>	<u>\$ 884,437</u>	<u>\$ 2,110,711</u>
 Unrestricted cash and cash equivalents	\$ 702,223	\$ 770,533	\$ 1,472,756
Restricted cash and cash equivalents	<u>524,051</u>	<u>113,904</u>	<u>637,955</u>
Total cash and cash equivalents, at end of year	<u>\$ 1,226,274</u>	<u>\$ 884,437</u>	<u>\$ 2,110,711</u>

See Independent Auditor's Report.

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
DECEMBER 31, 2023

	Water	Sewer	Total
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income (loss)	\$ 5,518	\$ (304,200)	\$ (298,682)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	1,088,577	619,737	1,708,314
Bad debt expense	-	5,181	5,181
Change in assets and liabilities:			
(Increase) decrease in receivables	(5,150)	372,395	367,245
Increase in inventories	(70,792)	(9,751)	(80,543)
(Decrease) increase in accounts payable	16,575	(663,202)	(646,627)
Increase in customer deposits	5,426	-	5,426
Increase in accrued liabilities	46,944	192	47,136
Decrease in net OPEB obligation	(135,442)	(43,879)	(179,321)
Increase in net pension obligation	54,664	17,710	72,374
	<u>\$ 1,006,320</u>	<u>\$ (5,817)</u>	<u>\$ 1,000,503</u>

See Independent Auditor's Report.

McCreary County Water District
Schedule of Proportionate Share of the Net Pension Liability
As of and for the Year Ended December 31, 2023

	<u>2023</u>	<u>2022</u>		
District's proportion of the net pension liability	0.051654%	0.046251%		
District's proportionate share of the net pension liability	\$ 3,314,383	\$ 3,343,490		
District's covered employee payroll	\$ 1,499,390	\$ 1,278,938		
District's share of the net pension liability as a percentage of its covered employee payroll	221.05%	261.54%		
Plan fiduciary net position as a percentage of the total pension liability	57.48%	52.42%		
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
District's proportion of the net pension liability	0.044226%	0.041752%	0.044240%	0.045494%
District's proportionate share of the net pension liability	\$ 2,819,754	\$ 3,202,344	\$ 3,111,418	\$ 2,770,845
District's covered employee payroll	\$ 1,129,658	\$ 1,069,480	\$ 1,115,926	\$ 1,127,618
District's share of the net pension liability as a percentage of its covered employee payroll	249.61%	299.43%	278.82%	245.73%
Plan fiduciary net position as a percentage of the total pension liability	57.33%	47.81%	50.45%	53.54%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.043724%	0.043507%	0.040430%	0.042430%
District's proportionate share of the net pension liability	\$ 2,559,300	\$ 2,142,121	\$ 1,738,371	\$ 1,376,595
District's covered employee payroll	\$ 1,064,570	\$ 1,024,456	\$ 949,859	\$ 973,416
District's share of the net pension liability as a percentage of its covered employee payroll	240.41%	209.10%	183.01%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

The amounts presented for each fiscal year were determined (measured) as of June 30, of the fiscal year presented.

McCreary County Water District
Schedule of Pension Contributions
As of and for the Year Ended December 31, 2023

	<u>2023</u>	<u>2022</u>		
Contractually required employer contributions	\$ 350,857	\$ 301,069		
Contributions relative to contractually required employer contributions	<u>350,857</u>	<u>301,069</u>		
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>		
District's covered employee payroll	\$ 1,499,390	\$ 1,399,124		
Employer contributions as a percentage of covered-employee payroll	23.40%	21.52%		
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required employer contributions	\$ 240,149	\$ 211,472	\$ 200,597	\$ 167,189
Contributions relative to contractually required employer contributions	<u>240,149</u>	<u>211,472</u>	<u>200,597</u>	<u>167,189</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,182,327	\$ 1,091,554	\$ 1,129,480	\$ 1,088,383
Employer contributions as a percentage of covered-employee payroll	20.31%	19.37%	17.76%	15.36%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required employer contributions	\$ 160,610	\$ 134,208	\$ 126,892	\$ 127,882
Contributions relative to contractually required employer contributions	<u>160,610</u>	<u>134,208</u>	<u>126,892</u>	<u>127,882</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,128,886	\$ 1,015,760	\$ 1,009,246	\$ 965,456
Employer contributions as a percentage of covered-employee payroll	14.23%	13.21%	12.57%	13.25%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Contractually required employer contributions exclude the portion of contributions paid to the CERS, but allocated to the insurance fund of the CERS.

The above contributions only include those contributions allocated directly to the CERS pension fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year end of the District.

McCreary County Water District
 Schedule of Proportionate Share of the Net OPEB Liability
 As of and for the Year Ended December 31, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
District's proportion of the net OPEB liability	0.051652%	0.046243%	0.044216%	0.041740%
District's proportionate share of the net OPEB liability	\$ (71,314)	\$ 912,612	\$ 846,493	\$ 1,007,893
District's covered employee payroll	\$ 1,499,390	\$ 1,278,938	\$ 1,129,658	\$ 1,069,480
District's share of the net OPEB liability as a percentage of its covered employee payroll	-4.76%	71.36%	74.93%	94.24%
Plan fiduciary net position as a percentage of the total OPEB liability	104.23%	60.95%	62.91%	51.67%
		<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability		0.044229%	0.045494%	0.043724%
District's proportionate share of the net OPEB liability		\$ 743,912	\$ 807,737	\$ 879,002
District's covered employee payroll		\$ 1,115,926	\$ 1,127,618	\$ 1,064,570
District's share of the net OPEB liability as a percentage of its covered employee payroll		66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability		60.44%	57.62%	52.39%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

The amounts presented for each fiscal year were determined (measured) as of June 30, of the fiscal year presented.

McCreary County Water District
Schedule of OPEB Contributions
As of and for the Year Ended December 31, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Contractually required employer contributions	\$ 50,829	\$ 53,332	\$ 62,802	\$ 52,156
Contributions relative to contractually required employer contributions	<u>50,829</u>	<u>53,332</u>	<u>62,802</u>	<u>52,156</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,499,390	\$ 1,399,124	\$ 1,182,327	\$ 1,091,554
Employer contributions as a percentage of covered-employee payroll	3.39%	3.81%	5.31%	4.78%
		<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required employer contributions		\$ 56,587	\$ 54,241	\$ 53,219
Contributions relative to contractually required employer contributions		<u>56,587</u>	<u>54,241</u>	<u>53,219</u>
Contribution excess (deficiency)		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll		\$ 1,129,480	\$ 1,088,383	\$ 1,128,886
Employer contributions as a percentage of covered-employee payroll		5.01%	4.98%	4.71%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Contractually required employer contributions exclude the portion of contributions paid to the CERS, but allocated to the pension fund of the CERS.

The above contributions only include those contributions allocated directly to the CERS insurance fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year end of the District.

**McCreary County Water District
Schedule of Changes in Benefits and Assumptions
As of and for the Year Ended December 31, 2023**

County Employee Retirement System

Changes of benefit terms

During the **2021** legislative session, House Bill 169 was enacted, which updated the disability benefits for certain qualifying members who became "totally and permanently disabled" in the line of duty or as a result of a duty related disability.

During the **2018** legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty.

- Pension - Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.
- Insurance - The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

Changes in assumptions

There have been no actuarial assumption or method changes for the year ending **June 30, 2023**. OPEB single discount rate increased from 5.70% to 5.93%

There have been no actuarial assumption or method changes for the year ending **June 30, 2022**. OPEB single discount rate increased from 5.20% to 5.70%

There have been no actuarial assumption or method changes for the year ending **June 30, 2021**, for pension. OPEB single discount rate was decreased from 5.34% to 5.20%.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2019**:

- The rate of inflation, payroll growth rate, salary increases, and investment rate of return assumptions remain the same as those adopted for the June 30, 2017 valuation.
- The salary increase assumption was increased from an average of 3.05% to a range that varies by service of 3.30% - 10.30%.
- The mortality tables used were updated to the following:

Active members - PUB 2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Healthy retired members - System specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

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

McCreary County Water District
Schedule of Changes in Benefits and Assumptions (continued)
As of and for the Year Ended December 31, 2023

County Employee Retirement System

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2023**:

- The discount rate was increased from 6.25% to 6.5%

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2019**:

- Updated the mortality tables from RP-2000 to Pub-2010
- The salary increase assumption was increased from an average of 3.05% to a range of 3.30% to 10.30%.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2017**:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation decreased by 0.95%
- The payroll growth assumption was reduced from 4.00% to 2.00%.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2015**:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to 0.75%
- The payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

McCreary County Water District
 Schedule of Expenditures of Federal Awards
 December 31, 2023

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal AL Number	Program/Award	Total Federal Expenditures
			FYE 12/31/23
US Economic Development Administration	11.307	US Economic Development Fibrotex Sewer Project Loan / Grant	\$ 791,662
Rural Development	10.760	Rural Development Water Tank Rehabilitation Loan / Grant	581,693
US Department of the Treasury	21.027	US Department of the Treasury Passed through the Kentucky Department for Local Government Covid 19: Coronavirus State and Local Fiscal Recovery Funds Maintenance Building Project Grant	74,564
Total			<u>\$1,447,919</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of McCreary County Water District under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of McCreary County Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of McCreary County Water District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rates

McCreary County Water District has elected not to use the 10 percent *de minimus* indirect cost rate as allowed under the Uniform Guidance.

Note 4. Pass-Through Awards

There were no awards passed through to recipients.

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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

Board of Commissioners
McCreary County Water District
Water and Sewer Divisions
Whitley City, Kentucky 42653

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities of the McCreary County Water District, Water and Sewer Divisions (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated September 24, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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.

Faulkner, King & Wenz, PSC

September 24, 2024

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

Board of Commissioners
McCreary County Water District
Water and Sewer Divisions
Whitley City, Kentucky 42653

Report on Compliance for Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on McCreary County Water District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about McCreary County Water District's compliance with the requirements of each major federal program as a whole.

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

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

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

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

Faulkner, King & Wenz, PSC

September 24, 2024

McCREARY COUNTY WASTER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2023

Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

• Material weakness(es) identified? _____ yes X no

• Significant deficiency(ies) identified? _____ yes X no

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards:

Type of auditor's report issued on compliance for major federal programs: unmodified

Internal control over major federal programs:

• Material weakness(es) identified? _____ yes X no

• Significant deficiency(ies) identified? _____ yes X no

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major federal program(s):

AL Numbers
11.307

Name of Federal Program or Cluster
US Economic Ddevelopment Administration

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

Auditee qualified as a low-risk auditee? X yes _____ no