

MEADE COUNTY WATER DISTRICT
Brandenburg, Kentucky

FINANCIAL STATEMENTS
December 31, 2023

CONTENTS

Independent Auditors' Report.....	1-3
Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-22
Required Supplementary Information	
Proportionate Share of the Net Pension Liability	23
Contributions - Pension.....	24
Proportionate Share of the Net OPEB Liability	25
Contributions - OPEB.....	26
Notes to Required Supplementary Information.....	27-29
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	30-31
Schedule of Findings and Responses.....	32-34



INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Meade County Water District
Brandenburg, Kentucky

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 23-26 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
March 27, 2024

MEADE COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2023

ASSETS

Current assets	
Cash and cash equivalents	\$ 484,553
Accounts receivable, net	334,474
Prepaid insurance	10,696
Inventory	<u>123,951</u>
Total current assets	<u>953,674</u>
Noncurrent assets	
Restricted cash	976,985
Net OPEB asset	22,869
Regulatory asset - CERS OPEB	290,155
Regulatory asset - CERS Pension	1,106,555
Land	75,043
Construction in progress	156,540
Property, plant and equipment, net	<u>15,000,400</u>
Total noncurrent assets	<u>17,628,547</u>
Total assets	<u>18,582,221</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - pension	127,921
Deferred outflows - OPEB	<u>75,608</u>
Total deferred outflows of resources	<u>203,529</u>
Total assets and deferred outflows of resources	<u>\$ 18,785,750</u>

LIABILITIES

Current liabilities	
Accounts payable	\$ 144,584
Payroll and other taxes payable	16,720
Accrued vacation	19,717
Accrued interest	73,604
Other accrued liabilities	24,866
Customer deposits	57,000
Deferred grant revenue	391,940
Current portion of notes and bonds payable	<u>251,852</u>
Total current liabilities	<u>980,283</u>
Noncurrent liabilities	
Net pension liability	1,062,830
Notes and bonds payable, net of current portion	<u>6,460,351</u>
Total noncurrent liabilities	<u>7,523,181</u>
Total liabilities	<u>8,503,464</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pension	171,646
Deferred inflows - OPEB	<u>388,632</u>
Total deferred inflows of resources	<u>560,278</u>

NET POSITION

Net investment in capital assets	8,519,780
Restricted net position	585,045
Unrestricted	<u>617,183</u>
Total net position	<u>9,722,008</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 18,785,750</u>

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

MEADE COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2023

OPERATING INCOME	
Water sales	\$ 3,424,589
Other revenue	<u>103,238</u>
Total operating income	<u>3,527,827</u>
OPERATING EXPENSES	
Water purchased	1,431,969
Distribution	
Personnel	384,035
Repairs and maintenance	77,723
Contractual services	59,890
Utilities	69,645
Other	<u>266,862</u>
Total distribution	<u>858,155</u>
Administrative and general	
Personnel	610,266
Repairs and maintenance	18,061
Contractual services	12,385
Utilities	4,247
Other	<u>111,776</u>
Total administrative and general	<u>756,735</u>
Depreciation	763,342
Total operating expense	<u>3,810,201</u>
OPERATING (LOSS)	(282,374)
Non-operating income (expense)	
Interest income	40,242
Gain on sale of capital assets	8,065
Interest expense	<u>(155,949)</u>
Total non-operating (expense)	<u>(107,642)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(390,016)
Capital contributions	
Tap fees	107,350
ARPA grant revenue	<u>57,860</u>
Total capital contributions	165,210
Change in net position	(224,806)
Net position, beginning of year	<u>9,946,814</u>
NET POSITION, END OF YEAR	<u><u>\$ 9,722,008</u></u>

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

**MEADE COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 3,571,838
Payments to suppliers	(2,145,872)
Payments for employee services and benefits	<u>(1,001,918)</u>
Net cash and cash equivalents provided by operating activities	<u>424,048</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments on debt	(330,222)
Proceeds from issuance of debt	59,049
Acquisition and construction of capital assets	(350,240)
Capital contributions	107,350
Proceeds on sale of capital assets	52,014
Interest on long-term debt	<u>(159,067)</u>
Net cash and cash equivalents (used in) capital and related financing activities	<u>(621,116)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>40,242</u>
Net cash and cash equivalents provided by investing activities	<u>40,242</u>

NET (DECREASE) IN CASH AND CASH EQUIVALENTS

	(156,826)
Cash and cash equivalents, beginning of year	<u>1,618,364</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,461,538</u>

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

Operating (loss)	\$ (282,374)
Noncash items included in operating income:	
Depreciation	763,342
Changes in assets and liabilities:	
(Increase) decrease in accounts receivables	45,552
(Increase) decrease in prepaid expenses	(2,521)
(Increase) decrease in inventory	(5,606)
Increase (decrease) in accounts payable	(85,187)
Increase (decrease) in payroll and other taxes payable	(7,380)
Increase (decrease) in customer deposits	(1,541)
Increase (decrease) in accrued vacation	<u>(237)</u>
Net cash and cash equivalents provided by operating activities	<u>\$ 424,048</u>

Supplemental disclosure of cash flow information

Components of cash on the Statement of Net Position	
Cash and cash equivalents	\$ 484,553
Restricted cash	<u>976,985</u>
	<u>\$ 1,461,538</u>
Non-cash capital and related financing activities	
Financed capital purchases	\$ 59,554
Net change in capital assets payable	<u>\$ (50,200)</u>

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

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

1. ORGANIZATION AND ACCOUNTING POLICIES

Meade County Water District (the District) was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Meade County, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in Water Utility Accounting and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

Reporting Entity

The District's financial statements include the operations of all entities for which the District exercises oversight responsibilities. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The only entity included in these financial statements are the general operations of Meade County Water District.

Basic Financial Statements

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Amounts

Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2023, accounts receivable was stated net of an allowance for uncollectible accounts of \$36,000.

Inventory – The District's inventory is composed of equipment and supply-type items used for routine maintenance, repairs and new water lines. The inventory is stated at the lower of cost (first-in, first-out method) or market.

Capital assets - Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (continued)

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-75
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-40

Restricted Assets - Restricted assets consist of demand deposit savings accounts.

Cash Equivalents - For purposes of the statement of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents. As of December 31, 2023, the District had cash equivalents of \$204,449 in the form of money market funds and treasury bills with an original maturity date of three months or less.

Accrued Vacation - Accumulated vacation is recorded as an expense and a liability as the benefit is earned.

Claims and Judgments - These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Capital Contributions - Contributions are recognized in the Statements of Revenues, Expenses and Changes in Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

Long-term Obligations - Obligations are reported at face value, net of applicable premiums and discounts.

Operating Revenues and Expenses - The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

Use of Restricted Resources - When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.

Net Position - Net position is divided into three components:

- a. Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.
- b. Restricted net position - consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
- c. Unrestricted - all other net position is reported in this category.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (continued)

Use of Estimates - The preparation of financial assets in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Pension and OPEB - For purposes of measuring the net pension and OPEB liabilities (assets), deferred outflows/inflows of resources, and regulatory assets, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB. Accordingly, the District recognizes the actuarially determined contribution as the current year pension and OPEB expense.

Change in Accounting Policy

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

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through March 27, 2024 which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2023, have not been evaluated by the District.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

2. DEPOSITS

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

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest. The District maintains an account with a brokerage institution that holds cash equivalents in the District's name. The District's deposits and investments at December 31, 2023, were entirely covered by Federal Depository Insurance, Securities Investor Protection, or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$1,427,109 at December 31, 2023. As of December 31, 2023, \$558,703 of the District's deposits were covered by Federal Depository Insurance and Securities Investor Protection, and \$868,406 were covered by collateral held by the custodial banks in the District's name.

3. RESTRICTED CASH

The District has restricted cash for customer deposits, reserve and depreciation, construction and debt service. The following schedule represents restricted cash at December 31, 2023:

Restricted Balances

Construction	\$	391,940
Debt Service		391,505
Reserve & Depreciation		<u>193,540</u>
Totals	\$	<u>976,985</u>

4. CAPITAL ASSETS

The following is a summary of capital asset activity during the year ended December 31, 2023:

	Balance 12/31/2022	Additions	Disposals	Balance 12/31/2023
Capital assets not depreciated:				
Construction in progress	\$ 50,200	\$ 106,340	\$ -	\$ 156,540
Land and Land Rights	<u>75,043</u>	<u>-</u>	<u>-</u>	<u>75,043</u>
Totals	<u>125,243</u>	<u>106,340</u>	<u>-</u>	<u>231,583</u>
Capital assets being depreciated:				
Property, plant and equipment	<u>26,582,002</u>	<u>245,090</u>	<u>(53,104)</u>	<u>26,773,988</u>
Less: accumulated depreciation	<u>11,018,212</u>	<u>763,342</u>	<u>(7,966)</u>	<u>11,773,588</u>
Depreciable assets, net	<u>15,563,790</u>	<u>(518,252)</u>	<u>(45,138)</u>	<u>15,000,400</u>
Total capital assets, net	<u>\$ 15,689,033</u>	<u>\$ (411,912)</u>	<u>\$ (45,138)</u>	<u>\$ 15,231,983</u>

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

5. LONG-TERM DEBT

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, 2023:

Bonds and Notes

USDA, Rural Development Bond - \$2,000,000, dated 7/19/18 with payments through 2056, bearing interest at a rate of 2.75%.	\$ 1,839,000
USDA, Rural Development Bond - \$2,506,170, dated 10/25/21 with payments through 2061, bearing interest at a rate of 1.875%.	2,420,170
Kentucky Bond Corporation Bond - \$2,070,000, dated 4/21/21 with payments through 2050, bearing interest at a rate of 3.00%.	1,975,000
Kentucky Infrastructure Authority Loan - \$394,760 dated 12/1/04 with payments through 2024, bearing interest at a rate of 3.00%.	25,822
Kentucky Infrastructure Authority Loan - \$753,447 dated 12/1/09 with payments through 2029, bearing interest at a rate of 3.00%.	274,854
Kentucky Rural Water Finance Corp. Bond - \$605,000, dated 6/27/01 with payments through 2024, bearing interest at 5.27%.	4,000
Meade County Bank Note - \$59,049, dated 1/25/23 with payments through 2025, bearing interest at 5.15%.	32,737
Bond premiums	<u>140,620</u>
Totals	6,712,203
Less: current portion of debt	<u>(251,852)</u>
Long-term debt	<u>\$ 6,460,351</u>

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

5. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize bonds outstanding as of December 31, 2023 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2024	\$ 153,408	\$ 153,435	\$ 306,843
2025	151,408	149,571	300,979
2026	158,408	145,689	304,097
2027	160,408	141,686	302,094
2028	161,908	137,642	299,550
2029-2033	865,542	623,037	1,488,579
2034-2038	861,542	516,827	1,378,369
2039-2043	978,042	402,899	1,380,941
2044-2048	1,122,542	270,655	1,393,197
2049-2053	863,908	141,187	1,005,095
2054-2058	643,500	53,373	696,873
2059-2061	<u>258,173</u>	<u>7,292</u>	<u>265,465</u>
	<u>\$ 6,378,789</u>	<u>\$ 2,743,293</u>	<u>\$ 9,122,082</u>

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

Year Ending December 31,	Principle	Interest	Payment
2024	\$ 98,444	\$ 9,493	\$ 107,936
2025	46,334	6,657	52,991
2026	45,074	5,324	50,398
2027	46,436	3,961	50,397
2028	47,840	2,558	50,398
2029	<u>49,286</u>	<u>1,112</u>	<u>50,399</u>
	<u>\$ 333,414</u>	<u>\$ 29,105</u>	<u>\$ 362,519</u>

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

5. LONG-TERM DEBT (CONTINUED)

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

	December 31, 2022	Additions	Retirements	December 31, 2023	Due Within One Year
Net pension liability	\$ 1,243,318	\$ -	\$ (180,488)	\$ 1,062,830	\$ -
Net OPEB liability	339,365	-	(339,365)	-	-
Bonds payable	6,570,698	-	(191,908)	6,378,790	153,408
Notes payable	<u>412,678</u>	<u>59,049</u>	<u>(138,314)</u>	<u>333,413</u>	<u>98,444</u>
Total	<u>\$ 8,566,059</u>	<u>\$ 59,049</u>	<u>\$ (850,075)</u>	<u>\$ 7,775,033</u>	<u>\$ 251,852</u>

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

6. COMPLIANCE WITH BOND RESOLUTIONS

The bond resolutions require the District to maintain certain reserves as follows:

Depreciation Reserve Fund – This reserve is to receive a monthly transfer of \$1,480 until a balance of \$177,600 is accumulated for all bond issues. In addition, this reserve is to receive all proceeds collected from potential customers to aid construction of extensions and any insurance proceeds from property damage. Funds may be used only for the purpose of paying the cost of unusual or extraordinary maintenance and repairs not included in the budget and cost of constructing extensions or improvements to the system. The Reserve Fund balance totaled \$45,540 at December 31, 2023. At December 31, 2023, the required balance in this reserve was \$45,540.

Maintenance and Replacement Reserve – This reserve is to receive an amount equal to ten percent of the amount of loan payments until the amount on deposit is equal to five percent of the original principal amount of the loan. Funds may be used for extraordinary maintenance expenses related to the water tank painting project or for the costs of replacing worn or obsolete portions of the project. At December 31, 2023, the required balance in this reserve was \$148,000, and the Maintenance and Replacement Reserve totaled \$148,000.

Bond and Interest Sinking Fund – This reserve is to receive a monthly transfer of 1/12 of the next interest due and 1/12 of the next principal due. In addition, this reserve is to receive any excess revenues at the close of each year after provision of anticipated operating expenses for a two-month period. This reserve can only be used to pay debt service on the bond issues. The Bond and Interest Sinking Fund balance totaled \$391,505 at December 31, 2023. At December 31, 2023, the required balance in this reserve was \$272,629.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

7. RETIREMENT PLAN

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

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

Contributions – For the year ended December 31, 2023, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1.00% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2023, participating employers contributed 26.79% through June 30th and 23.34% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 8. Plan members contributed 23.40% through June 30th and 23.34% thereafter to the pension trust for non-hazardous job classifications for the year ended December 31, 2023. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1.00% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$142,340 for the year ended December 31, 2023, or 100% of the required contribution for non-hazardous job classifications.

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

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

7. RETIREMENT PLAN (CONTINUED)

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

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2023, the District reported a liability for its proportionate share of the total net pension liability of \$1,062,830. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2023, the District's proportion was 0.016564 percent, which was a decrease of 0.000635 percent from its proportion measured as of June 30, 2022.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

7. RETIREMENT PLAN (CONTINUED)

For the year ended December 31, 2023, the District would have recognized pension expense of \$31,992; However, this expense was offset by increasing a regulatory asset described further in Note 12. During 2023, the District recognized the actuarially determined contribution of \$142,340 as the current year pension expense. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 55,021	\$ 2,890
Changes of assumptions	-	97,410
Net difference between projected and actual earnings on Plan investments	-	14,496
Changes in proportion and differences between District contributions and proportionate share of contributions	778	56,850
District contributions subsequent to the measurement date	72,122	-
Total	\$ 127,921	\$ 171,646

The \$72,122 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2023 will be recognized in pension expense as follows:

Year ending December 31,	
2024	\$ (75,099)
2025	\$ (54,185)
2026	\$ 23,727
2027	\$ (10,290)

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

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

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

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

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

7. RETIREMENT PLAN (CONTINUED)

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

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

Discount Rate – The discount rate used to measure the total pension liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining closed 28-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

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

	Discount rate	District’s proportionate share of net pension liability
1% decrease	5.50%	\$ 1,341,888
Current discount rate	6.50%	\$ 1,062,830
1% increase	7.50%	\$ 830,923

Payable to the Pension Plan – At December 31, 2023, the District reported a payable of \$16,812 for the outstanding amount of contributions to the pension plan required for the year ended. The payable includes both the pension and insurance contribution allocation.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, the District participates in the County Employees’ Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2023, the employer’s contribution was 3.39% through June 30th and 0.00% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2023, the District contributed \$10,173, or 100% of the required contribution for non-hazardous job classifications.

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

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

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

OPEB Liabilities (Assets), Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2023, the District reported an asset for its proportionate share of the net OPEB asset of \$22,869. The net OPEB asset was measured as of June 30, 2023, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2022 and was rolled forward using generally accepted actuarial procedures.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

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

The District's proportion of the net OPEB asset was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2023 was 0.016564 percent, which was a decrease of 0.000632 percent from its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the District would have recognized OPEB expense of \$(48,212); However, this expense was offset by increasing a regulatory asset described further in Note 12. During 2023, the District recognized the actuarially determined contribution of \$10,173 as the current year pension expense. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 15,943	\$ 324,719
Changes of assumptions	45,005	31,364
Net difference between projected and actual earnings on Plan investments	-	5,308
Changes in proportion and differences between District contributions and proportionate share of contributions	7,190	27,241
District contributions subsequent to the measurement date	<u>7,470</u>	<u>-</u>
Total	<u>\$ 75,608</u>	<u>\$ 388,632</u>

The \$7,470 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2024. This includes an adjustment of \$7,470 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,	
2024	\$ (77,367)
2025	\$ (99,412)
2026	\$ (78,615)
2027	\$ (65,100)

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

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

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

Non-hazardous

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

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

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

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

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

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

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

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

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

	Discount rate		Proportionate share of net OPEB liability (asset)
1% decrease	4.93%	\$	42,917
Current discount rate	5.93%	\$	(22,869)
1% increase	6.93%	\$	(77,957)

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

		Proportionate share of net OPEB liability (asset)
1% decrease	\$	(73,300)
Current trend rate	\$	(22,869)
1% increase	\$	39,080

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

9. CAPITAL CONTRIBUTIONS

The District received \$107,350 of tap fees and recognized \$57,860 of grant revenue that was used for capital projects for the year ended December 31, 2023.

10. RISK MANAGEMENT

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

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

11. ECONOMIC DEPENDENCY

The District obtains a majority of its revenues from customers in Meade County, Kentucky. An economic downturn in the area could have a negative impact on the financial condition of the District.

12. ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

The District is subject to the provisions of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989, FASB and AICPA Pronouncements. This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulating entities. Accordingly, the District records these future economic benefits and obligations as regulatory assets and regulatory liabilities.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for the District to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

- 1 The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
- 2 The regulated rates must be designed to recover the specific entities cost of providing the regulated services;
- 3 In view of the demand for the regulated services and the level of competition, it is reasonable to assume that the rates set at levels that will recover the entities' cost can be charged to and collected from customers.

Based on the District's management evaluation of the three criteria discussed above in relation to its operations, and the effects of competition on its ability to recover its costs, the District believes that GASB Statement No. 62 applies and has elected to apply the guidance to its pension and OPEB liabilities. The District believes these liabilities will be recovered through rates charged to customers in future periods. As of December 31, 2023, the District had regulatory assets of \$1,106,555 and \$290,155, which equates to the net impact of pension and OPEB expense on the balance sheet.

REQUIRED SUPPLEMENTARY INFORMATION

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Nine Fiscal Years**

Reporting Year End (Measurement Date)	December 31, 2015 (June 30, 2015)	December 31, 2016 (June 30, 2016)	December 31, 2017 (June 30, 2017)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)	December 31, 2022 (June 30, 2022)	December 31, 2023 (June 30, 2023)
District's proportion of the net pension liability	0.018106%	0.018260%	0.017207%	0.016584%	0.016551%	0.017978%	0.018412%	0.017199%	0.016564%
District's proportionate share of the net pension liability (asset)	\$ 778,456	\$ 899,077	\$ 1,007,179	\$ 1,010,077	\$ 1,164,321	\$ 1,378,898	\$ 1,173,909	\$ 1,243,318	\$ 1,062,830
District's covered employee payroll	\$ 396,057	\$ 408,472	\$ 448,477	\$ 429,772	\$ 446,856	\$ 460,508	\$ 470,278	\$ 505,510	\$ 578,944
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	196.55%	220.11%	224.58%	235.03%	260.56%	299.43%	249.62%	245.95%	183.58%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.30%	53.54%	50.45%	47.81%	57.33%	52.42%	57.48%

Notes:

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

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - PENSION
Last Nine Calendar Years**

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually required employer contribution	\$ 50,497	\$ 50,732	\$ 62,563	\$ 62,231	\$ 78,225	\$ 91,620	\$ 101,785	\$ 122,683	\$ 142,340
Contributions relative to contractually required employer contribution	<u>50,497</u>	<u>50,732</u>	<u>62,563</u>	<u>62,231</u>	<u>78,225</u>	<u>91,620</u>	<u>101,785</u>	<u>122,683</u>	<u>142,340</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 396,057	\$ 408,472	\$ 448,477	\$ 429,772	\$ 439,022	\$ 474,719	\$ 481,689	\$ 530,964	\$ 609,086
Employer contributions as a percentage of covered-employee payroll	12.75%	12.42%	13.95%	14.48%	17.82%	19.30%	21.13%	23.11%	23.37%

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

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY / (ASSET)
Last Six Fiscal Years**

Reporting Year End (Measurement Date)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)	December 31, 2022 (June 30, 2022)	December 31, 2023 (June 30, 2023)
District's proportion of the net OPEB liability	0.016584%	0.016551%	0.017973%	0.018407%	0.017196%	0.016564%
District's proportionate share of the net OPEB liability (asset)	\$ 294,441	\$ 287,380	\$ 433,993	\$ 352,393	\$ 339,365	\$ (22,869)
District's covered employee payroll	\$ 429,772	\$ 446,856	\$ 460,508	\$ 470,278	\$ 505,510	\$ 578,944
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	68.51%	64.31%	94.24%	74.93%	67.13%	-3.95%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	57.62%	60.44%	51.67%	62.91%	60.95%	104.23%

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

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - OPEB
Last Nine Calendar Years**

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually required employer contribution	\$ 19,486	\$ 18,953	\$ 21,213	\$ 20,199	\$ 21,945	\$ 22,597	\$ 25,513	\$ 19,966	\$ 10,173
Contributions relative to contractually required employer contribution	<u>19,486</u>	<u>18,953</u>	<u>21,213</u>	<u>20,199</u>	<u>21,945</u>	<u>22,597</u>	<u>25,513</u>	<u>19,966</u>	<u>10,173</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 396,057	\$ 408,472	\$ 448,477	\$ 429,772	\$ 439,022	\$ 474,719	\$ 481,689	\$ 530,964	\$ 609,086
Employer contributions as a percentage of covered-employee payroll	4.92%	4.64%	4.73%	4.70%	5.00%	4.76%	5.30%	3.76%	1.67%

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

1. GENERAL INFORMATION

Contributions

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

Payroll

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

2. CHANGES OF ASSUMPTIONS

December 31, 2023 – Pension and OPEB

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

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

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

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The initial healthcare trend rate for pre-65 was changed from 6.20% to 6.8%. The initial healthcare trend rate for post-65 was changed from 9.00% to 8.50%.

December 31, 2022 – Pension and OPEB

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

- The initial healthcare trend rate for pre-65 was changed from 6.30% to 6.20%. The initial healthcare trend rate for post-65 was changed from 6.30% to 9.00%.

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for pension.

2. CHANGES OF ASSUMPTIONS (CONTINUED)

December 31, 2021 – Pension and OPEB

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

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

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for pension.

December 31, 2020 – Pension and OPEB

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

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

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension.

December 31, 2019 – Pension and OPEB

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

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

December 31, 2018 – Pension and OPEB

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

December 31, 2017 – Pension and OPEB

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

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

December 31, 2016 – Pension and OPEB

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

2. CHANGES OF ASSUMPTIONS (CONTINUED)

December 31, 2015 – Pension

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

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



**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**

The Board of Commissioners
Meade County Water District
Brandenburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Meade County Water District (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 27, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-001, 2023-002, and 2023-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-004 to be a significant deficiency.

Report on Compliance and Other Matters

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

Meade County Water District's Response to Findings

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

Purpose of This Report

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

RFH

RFH, PLLC
Lexington, Kentucky
March 27, 2024

**MEADE COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2023**

2023-001 – Internal Control Over Financial Reporting (Recurring) (Material Weakness)

Criteria: The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition: Management engaged the auditor to draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

Cause: The District lacks personnel with the expertise to draft the financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

Effect: Management engaged the auditor to draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements on the accrual basis of accounting.

Response: The District hired an outside CPA, who is also a QuickBooks Pro Advisor, to assist in improving the needed internal controls.

2023-002 – Internal Control Over Period-end Financial Reporting (Recurring) (Material Weakness)

Criteria: The District is required to have internal controls over the period-end financial reporting process that enable the District to record and process year-end journal entries to produce financial records that are in accordance with generally accepted accounting principles.

Condition: During our audit, we identified material misstatements that were not identified by the District's internal controls over financial reporting.

Cause: The District failed to provide proper oversight over period-end financial reporting, which resulted in misstated accounting records prior to performance of the audit.

Effect: The District relied on auditor prepared accounting adjustments to ensure the financial records were properly stated in accordance with generally accepted accounting principles. There were several material adjustments that were necessary to properly record capital assets, accounts payable, accounts receivable, deferred revenue, debt and related income and expense. The District reviewed, approved and accepted responsibility for the accounting adjustments as the auditor cannot be a component of the District's internal controls.

Recommendation: We recommend management review the period-end financial reporting process and implement an additional analytical review and analysis and reconciliation of year end balances prior to the start of the audit. This additional oversight of the year-end financial records should ensure that any accounting errors are detected and corrected prior to the audit.

Response: The District hired an outside CPA, who is also a QuickBooks Pro Advisor, to assist in improving the needed internal controls.

**MEADE COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2023**

2023-003 – Segregation of Duties (Recurring) (Significant Deficiency)

Criteria: The District should have proper segregation of duties or compensating controls to properly safeguard assets from misappropriation. The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In addition, proper segregation of duties should include oversight of accounting activity by individuals with knowledge of internal controls and accounting regulations, who were not involved in the original transaction.

Condition: The District had one individual responsible for adjusting utility bills without a regular and formalized secondary approval. Monthly bank reconciliations were not regularly reviewed by an individual other than the preparer. Additionally, bank statements were not regularly reviewed before reconciliations were prepared by an individual other than the individual preparing the reconciliation. We also noted that payroll registers were not being regularly reviewed by an individual other than the preparer. The District also failed to provide sufficient compensating controls, for these incompatible duties.

Cause: The District does not have sufficient segregation of duties related to utility billing adjustments, bank reconciliations, and payroll review. Additionally, while improvements were made in 2023, the District did not provide regular, documented oversight to compensate for the lack of segregation of duties.

Effect: District personnel performed a variety of incompatible duties during 2023. The District did not provide regular, documented oversight related to monthly bank reconciliations, utility billing adjustments, or payroll processing.

Recommendation: We recommend the District separate duties where possible and implement compensating controls to address the lack of segregation of duties related to utility billing adjustments, monthly bank reconciliations, and payroll processing. Bank statements received in the mail should be opened and reviewed by someone other than the individual preparing the reconciliations regularly and the review should be documented. We also recommend the Board review the budget to actual reports and investigate unusual variances. Management and/or a member of the Board should review monthly bank reconciliations and bank statements should be received and reviewed by someone other than the individual preparing the reconciliation on a regular basis. The District should also have an individual outside of the utility billing function review and approve monthly utility billing adjustments on a regular basis and the review should be documented. Payroll registers should be reviewed regularly by an individual other than the person who prepared payroll, including review of pay rate changes, overtime and an overall reasonableness review, and the review should be documented.

Response: While the District acknowledges the short comings, it is our contention that strides were made in 2023 to improve controls and processes. The District has crossed trained employees in as many areas as possible, but with an office staff of four employees (three CSR's and one accounting specialist), it is difficult to sufficiently segregate duties. The District has contracted a CPA to assist with these and other duties and will work with them to find better ways to improve segregation of duties and internal controls.

PRIOR AUDIT FINDINGS

2022-001 – Internal Control Over Financial Reporting (Material Weakness)

Status: Repeated as Finding 2023-001.

2022-002 – Internal Control Over Period-end Financial Reporting (Material Weakness)

Status: Repeated as Finding 2023-002.

**MEADE COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2023**

PRIOR AUDIT FINDINGS (CONTINUED)

2022-003 – Segregation of Duties (Material Weakness)

Status: Repeated as Finding 2023-003.

2022-004 – Capital Asset Accounting and Tracking (Significant Deficiency)

Status: Resolved.

2022-005 – Bank Reconciliation Preparation (Significant Deficiency)

Status: Resolved.