

MORGAN COUNTY WATER DISTRICT
AUDIT OF FINANCIAL STATEMENTS

For The Years Ended
December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Morgan County Water District
West Liberty, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Morgan County Water District (the District), as of and for the years ended December 31, 2022 and 2021, 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 business-type activities of the District, as of December 31, 2022, 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 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 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.

To the Board of Directors
Morgan County Water District
West Liberty, Kentucky

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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 Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of the District's Pension Contributions, the Schedule of the District's Proportionate Share of the Net OPEB Liability, and the Schedule of the District's OPEB Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic

To the Board of Directors
Morgan County Water District
West Liberty, Kentucky

financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2023, on our consideration of Morgan County Water 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 Morgan 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 Morgan County Water District's internal control over financial reporting and compliance.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky
May 25, 2023

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
For The Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash - Unrestricted	\$ 61,013	\$ 19,660
Cash - Restricted	272,774	159,868
Accounts Receivable	166,680	166,680
Unbilled Receivables	101,820	88,565
Allowance for Doubtful Accts.	(13,595)	(13,595)
Prepaid Insurance	<u>7,412</u>	<u>7,412</u>
Total Current Assets	596,104	428,590
NONCURRENT ASSETS		
Prepaid Capital Lease		
(Net of Accumulated Amortization of \$47,041 and \$42,764)	376,324	380,600
Cash - Restricted	<u>49,372</u>	<u>43,538</u>
Total Noncurrent Assets	425,696	424,138
PROPERTY AND EQUIPMENT		
Construction in Progress	60,000	942,883
Water Lines	23,560,309	22,525,857
Accum. Depr. Water Lines	(7,541,983)	(7,079,472)
Building Improvements	16,296	16,296
Accum. Depr. Building Improvements	(1,018)	(203)
Office Equipment	24,430	24,430
Accum. Depr. Office Equipment	(8,321)	(4,988)
Hydrants	20,800	
Accum. Depr. Hydrants	(312)	
Zone Pit Meters	40,640	
Accum. Depr. Zone Pit Meters	(677)	
PRV Pits	39,069	
Accum. Depr. PRV Pits	(651)	
Equipment and Vehicles	753,160	528,977
Accum. Depr. Equipment and Vehicles	(498,315)	(446,722)
Land	<u>71,076</u>	<u>71,076</u>
Total Property and Equipment	<u>16,534,503</u>	<u>16,578,134</u>
TOTAL ASSETS	17,556,303	17,430,862
DEFERRED OUTFLOWS OF RESOURCES		
Pension Liabilities	327,730	166,677
OPEB Liabilities	111,714	89,728

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
For The Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accrued Interest	63,362	20,896
Accrued Expenses	312,637	183,544
Accrued Salaries	3,819	3,819
Accounts Payable-Water Purchases		54,123
Accounts Payable-Construction		62,154
Accounts Payable-Retirement	18,207	12,635
Lease Payable	28,301	26,661
Loan Payable	55,673	27,601
Bonds Payable	<u>117,590</u>	<u>82,030</u>
Total Current Liabilities	599,589	473,463
LONG-TERM LIABILITIES		
Compensated Absences	23,872	13,566
Net Pension Liability	795,119	574,841
OPEB Liability	217,027	172,569
Loan Payable	150,000	150,000
Lease Payable	63,912	21,350
Bonds Payable	<u>3,467,700</u>	<u>3,585,290</u>
	4,717,630	4,517,616
OTHER LIABILITIES		
Customer Deposits	<u>48,094</u>	<u>39,417</u>
TOTAL LIABILITIES	5,365,313	5,030,496
DEFERRED INFLOWS OF RESOURCES		
Refunding Bond Premium		
(Net of Accumulated Amortization of \$14,588 and \$12,504)	37,513	39,597
Pension Liabilities	94,889	106,806
OPEB Liabilities	112,210	91,105
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	13,164,984	13,141,652
Restricted for Debt Service	128,908	159,868
Restricted for Depreciation Reserve	2,505	2,504
Restricted for Construction	50	584
Unrestricted	<u>(910,625)</u>	<u>(885,345)</u>
TOTAL NET POSITION	<u>\$ 12,385,822</u>	<u>\$ 12,419,263</u>

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
For The Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water Collection	\$ 1,985,898	\$ 1,754,068
Sales Tax	(7,887)	(6,404)
Utility And Local Tax	(55,437)	(48,794)
Tap-On Fees	145,288	69,220
Miscellaneous	<u>229,652</u>	<u>131,030</u>
Net Operating Revenues	2,297,514	1,899,120
OPERATING EXPENSES		
Advertising	1,519	1,193
Bank Charges	4,889	1,546
Collection Expense	223	
Depreciation	519,891	484,226
Fuel	37,758	23,279
Insurance	109,656	80,964
Miscellaneous	19,904	9,267
Office Supplies	29,142	15,043
Outside Services	123,570	91,083
Payroll Taxes	33,243	22,089
Postage	15,912	13,197
Repairs & Maintenance	8,335	4,219
Leasing and Maintenance Fees	96	210
Retirement	157,284	98,885
OPEB	48,605	29,906
Salaries	444,858	273,891
Supplies & Testing	177,687	132,003
Travel	20,804	9,583
Uniforms	4,930	4,693
Unemployment Insurance	582	231
Utilities and Telephone	59,385	45,902
Water Purchased	717,565	683,545
Worker's Compensation	<u>6,175</u>	<u>5,700</u>
Total Operating Expenses	<u>2,542,013</u>	<u>2,030,655</u>
NET OPERATING INCOME	(244,499)	(131,535)

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
For The Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
NON OPERATING REVENUES (EXPENSES)		
Interest and Amortization Expense	(144,220)	(146,942)
Interest Income	635	72
Insurance Proceeds	6,600	
Gain (Loss) on Disposal of Fixed Asset	1,200	(41)
Grant Proceeds	<u>346,843</u>	<u>593,386</u>
Total Non Operating Revenues (Expenses)	<u>211,058</u>	<u>446,475</u>
Change in Net Position	(33,441)	314,940
Total Net Position - Beginning	<u>12,419,263</u>	<u>12,104,323</u>
Total Net Position - Ending	<u><u>\$ 12,385,822</u></u>	<u><u>\$ 12,419,263</u></u>

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from Customers	\$ 2,322,290	\$ 1,863,313
Miscellaneous Income	25,293	18,241
Payments to Vendors	(1,238,988)	(1,256,221)
Payments for Payroll and Related Expenses	<u>(664,724)</u>	<u>(374,720)</u>
Net Cash Provided/(Used) by Operating Activities:	443,871	250,613
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net (Deposits)/Withdrawals Customer Deposit Account	(6,368)	(7,935)
Net (Deposits)/Withdrawals Surcharge Account	(77,316)	(66,550)
Net Customer Deposits (Returned)/Collected	<u>8,677</u>	<u>7,726</u>
Net Cash Provided/(Used) by Noncapital Financing Activities	(75,007)	(66,759)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest Expense	(99,561)	(196,833)
Net (Deposits)/Withdrawals into or from Bond Sinking Fund	(35,590)	77,358
Net (Deposits)/Withdrawals into or from Dep. Reserve Fund	(1)	(1)
Net (Deposits)/Withdrawals into or from Cash - Construction	534	3,661
Grant Proceeds	346,843	593,386
Insurance Settlement	6,600	
Constructed Fixed Assets	(132,562)	(880,730)
Sale of Assets	1,200	
Purchase of Fixed Assets	(405,852)	(56,113)
Proceeds from Borrowed Money	55,673	492,601
Increase in Lease Payable	75,975	
Reduction in Lease Payable	(31,774)	(26,551)
Reduction in Bonds Payable	(82,030)	(130,020)
Reduction in Loan Payable	<u>(27,601)</u>	<u>(30,460)</u>
Net Cash Provided/(Used) by Capital and Related Financing Activities	(328,146)	(153,702)

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest	635	72
Net Cash Provided/(Used) by Investing Activities	<u>635</u>	<u>72</u>
INCREASE/(DECREASE) IN CASH	41,353	30,224
CASH AT BEGINNING OF YEAR	<u>19,660</u>	<u>(10,564)</u>
CASH AT END OF YEAR	<u><u>\$ 61,013</u></u>	<u><u>\$ 19,660</u></u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income	\$ (244,499)	\$ (131,535)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	519,891	484,226
Changes in Assets/Liabilities:		
Accounts Receivable	(13,255)	(72,763)
Accounts Payable Retirement	5,572	7,415
Net OBEB Liability	44,458	(18,144)
Net Pension Liability	220,278	(38,039)
Deferred Outflows	(183,040)	(33,093)
Deferred Inflows	9,191	137,842
Accounts Payable	122,499	(85,296)
Accounts Payable - Water Purchases	(54,123)	
Compensated Absences	10,305	
Payroll Tax Liability	<u>6,594</u>	
Net Cash Provided/Used by Operating Activities	<u><u>\$ 443,871</u></u>	<u><u>\$ 250,613</u></u>
 <u>Supplementary Information</u>	 <u>2022</u>	 <u>2021</u>
Interest and Amortization Expense	\$ 144,222	\$ 146,942
Amortization of Bond Premium	(2,084)	(2,084)
Total Interest Charged to Expense	<u><u>\$ 142,138</u></u>	<u><u>\$ 144,858</u></u>

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

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Morgan County Water District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Organization & Activity

The Morgan County Water District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in February 1992. The purpose of the District is to provide water service to residents of Morgan County.

Financial Reporting Entity

The District complies with GASB Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations Are Component Units." These Statements establish standards for defining and reporting on the financial reporting entity. They define component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not considered a component unit of any other governmental unit for financial reporting purposes.

The District considered all potential component units in determining what organizations should be included in its financial statements. Based on an evaluation of the established criteria, management determined that there were no component units to include in the District's financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements provide information about the District's business-type activities. The financial statements for the business-type activities are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transaction and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting," refers to when transactions or events are recorded regardless of measurement focus applied.

Because of the "businesslike" characteristics of the District's operations, the accompanying financial statements report the economic resources measurement focus and the accrual basis of accounting. The accounting objective of the "economic resources" measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District utilizes an enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

As the means for delivering services to its customers, the District utilizes an office building, infrastructure, office equipment, equipment and vehicles. To provide the resources that are necessary to pay for water services and the related support functions, the District charges its customers monthly user fees, which are based on the specific level of services that they are receiving. Because the operations of the District closely mirror those of a typical, commercial company, its accounting records reflect a similar approach for measuring its business activity.

The District's various bond resolutions or ordinances require the establishment of certain accounts, which are referred to as "funds." These required accounts are maintained as part of accounting records of the Water Fund. They include the Sinking Fund (Debt Service), Revenue Fund and Depreciation Reserve Fund (Repairs and Maintenance). These are not "funds" as the term is used in generally accepted accounting principles, but are separate "accounts" used to delineate the accounting and reporting for bond related money and repayment security requirements. The balances and activity that occur in these various accounts represent specific segments of the Water Utility enterprise fund as reported in the District's financial statements.

The enterprise fund used by the District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgeting

The District prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. Project-length budgets, which generally encompass more than one fiscal year, are also prepared for major construction projects. Both the operating and project-length expenditure plans are prepared on the cash basis of accounting, which significantly differs from the accrual basis of accounting that the District uses in the preparation of its financial statements.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgeting (Continued)

These managerial budgets that are prepared for operations each year or at the inception of a major construction project are not adopted by the Board as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 30+ days delinquent at year-end. Bills are due by the tenth of each month. Nonpayment within thirty days from the mail date located on the bill will result in the water being shut off from the user's property. Customer deposits held are applied to outstanding bills.

Accounts and Unbilled Receivables

Accounts receivable are stated at face amount. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed December 23 is for customer usage from approximately November 16 through December 15. The entire amount is considered accounts receivable as of December 31. The billing mailed on January 26 of the subsequent year is for usage from approximately December 16 through January 15. Fifty percent of this billing is considered unbilled receivables at December 31.

Deposits and Investments

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which 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).

Property, Plant and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water distribution systems, sewer collection systems and similar items) are reported as a component of noncurrent assets in the basic financial statement. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (Continued)

Depreciation is charged as an expense against operations. Capital assets of the District are depreciated using the straight-line method over their estimated useful lives in years as set forth as follows.

<u>Category</u>	<u>Life in years</u>
Buildings	10-75
Equipment and Vehicles	3-25
Water Lines	10-50
Office Equipment	3-25

The depreciation expense provided on proprietary fund assets during the years ended December 31, 2022 and 2021 are \$519,891 and \$484,226, respectively.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of unrestricted cash on hand, demand and savings deposits, certificates of deposit, and bank overdrafts.

Inventory and Prepaid Items

The District does not maintain an inventory of supplies. Supplies are purchased as needed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

Restricted Net Position

Some of the District's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation.

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "debt service" accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The "depreciation reserve" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements and extensions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Tax

The District is exempt from federal income tax.

NOTE B - CASH AND INVESTMENTS

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2022, these requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2022, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

NOTE C – FAIR VALUE MEASUREMENT

GASB Statement No. 72, Fair Value Measurement and Application requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents and accounts receivable.

NOTE D - RESTRICTIONS ON CASH

Bond Sinking Funds

Deposits into Bond Sinking Funds are required to be made monthly in order to accumulate funds for payment of bond principle and interest. At December 31, 2022, \$176,362 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2023. The balance in these accounts at December 31, 2022 was \$128,908.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit \$1,020 per month into the account. The District had \$2,505 on deposit in this account for the purpose of maintaining the water system at December 31, 2022.

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE D – RESTRICTIONS ON CASH (Continued)

Restricted Cash Accounts

The District is required to maintain special deposit accounts for customer deposits, construction projects, and long-term debt obligations. The following is a listing of restricted cash accounts of the District at December 31, 2022:

	2022	2021
Customer Deposit Accounts	\$ 46,817	\$ 40,450
Bond and Interest Sinking Fund	128,908	93,318
Surcharge Account	143,866	66,550
Depreciation Reserve Fund	2,505	2,504
Construction Account	50	584
	<hr/>	<hr/>
Total Restricted Cash Accounts	\$ 322,146	\$ 203,406
	<hr/>	<hr/>

NOTE E – INSURANCE COVERAGE

For the fiscal years ended December 31, 2022 and 2021, the District was a member of the Kentucky Association of Counties All Lines Insurance Fund (KALF). KALF is a self- insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses. There have been no settlements that have exceeded insurance coverage for each of the past three fiscal years.

NOTE F – CAPITAL LEASES

The District has entered into two lease agreements as lessee with the Morgan County Fiscal Court for the use of 2,500 square feet of office space at 1009 Hwy 172, West Liberty, Kentucky 41472 and 2,500 square feet of office and storage space at 150 County Garage Road, West Liberty, Kentucky 41472. The lease agreements qualify as capital leases for accounting purposes (the terms of the leases are equal to seventy-five percent or more of the estimated economic life of the leased properties). The terms of the leases are ninety-nine years. In 2012, the District prepaid \$423,364 in full payment of all future lease payments. Amortization expense for each of the fiscal years ended December 31, 2022 and 2021 was \$4,276.

NOTE G – BOND PREMIUM

On November 30, 2016, the District entered into an assistance agreement with Kentucky Rural Water Association to refund six Rural Development bonds. (See Note I). The bond premium of \$52,101, a result of the refunding, will be amortized over the 25-year term of the bond at \$2,084 per year. At December 31, 2022 and 2021, the bond premium, net of accumulated amortization of \$14,588 and \$12,504, is \$37,513 and \$39,597, respectively and is classified as a deferred inflow.

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE H - PROPERTY, PLANT AND EQUIPMENT

The District's property, plant and equipment consist of the following:

	December 31, 2021			December 31, 2022
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 71,076	\$	\$	\$ 71,076
Construction In Progress	942,884	70,408	(953,292)	60,000
Total Capital Assets Not Being Depreciated	1,013,960	70,408	(953,292)	131,076
Capital Assets, Being Depreciated:				
Office Equipment	24,430			24,430
Building Improvement	16,296			16,296
Vehicles	172,785	123,476		296,261
Equipment	356,192	100,707		456,899
Hydrants		20,800		20,800
Zone Pit Meters		40,640		40,640
PRV Pits		39,069		39,069
Waterlines	22,525,857	1,034,452		23,560,309
Total Capital Assets Being Depreciated	23,095,560	1,359,144		24,454,704
Less Accumulated Depreciation for:				
Office Equipment	(4,988)	(3,333)		(8,321)
Building Improvement	(204)	(815)		(1,019)
Vehicles	(137,928)	(36,829)		(174,757)
Equipment	(308,794)	(14,763)		(323,557)
Hydrants		(312)		(312)
Zone Pit Meters		(677)		(677)
PRV Pits		(651)		(651)
Waterlines	(7,079,472)	(462,511)		(7,541,983)
Total Accumulated Depreciation	(7,531,386)	(519,891)		(8,051,277)
Total Capital Assets, Being Depreciated, Net	15,564,174	839,253		16,403,427
Business-Type Activities Capital Assets, Net	\$ 16,578,134	\$ 909,661	\$ (953,292)	\$ 16,534,503

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE I - BONDS PAYABLE

The following is a summary of the long-term debt transactions of the Morgan County Water District for the years ended December 31, 2022:

<u>Water Utility Fund Revenue Bonds</u>	<u>2022</u>	<u>2021</u>
Bonds Payable - Beginning	\$ 3,667,320	\$ 3,482,340
Bonds Retired	(82,030)	(130,020)
Bonds Added		315,000
Bonds Payable - Ending	<u>\$ 3,585,290</u>	<u>\$ 3,667,320</u>

Bonds payable at December 31, 2022 consists of the following issues:

\$332,000 Water revenue bonds, Series 2001, maturing through January 1, 2040, with interest at 3.25 percent	\$ 206,500
\$1,000,000 Water revenue bonds, Series 2006, maturing through January 1, 2045, with interest at 4.125 percent	772,000
\$1,446,000 Water revenue bonds, Series 2008, maturing through January 1, 2048, with interest at 4.125 percent	1,198,290
\$315,000 Water revenue bonds, Series 2021 CLSS, maturing through January 1, 2061, with interest at 1.125%	308,500
\$1,330,000 KRWFC revenue bonds, Series 2016 D, maturing through January 1, 2042 with interest varied from 3.5% - 5%	<u>1,100,000</u>
Total	<u>\$ 3,585,290</u>

Bond Collateralization and Event of Default Consequence

According to Bond documents, the Bonds shall be payable solely out of the gross revenues of the System. In addition to the revenue pledge securing the Bonds, a lien is created and granted in favor of the Bond owners on all contracts and on all other rights of the District pertaining to the System. Upon the occurrence of an Event of Default, and upon the filing of a suit by any Owner of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the prior Bonds and the Current Bonds and to provide and apply the income and revenues in conformity with the Resolution and with the laws of the commonwealth of Kentucky.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at December 31, 2022, required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE I - BONDS PAYABLE (CONTINUED)

Bond Refunding

On November 30, 2016, the District entered an assistance agreement with Kentucky Rural Water Finance Corporation in the amount of \$1,330,000 for the purpose of refinancing and currently refunding certain obligations of the District in order to affect substantial debt service savings. The following bond series were refunded: Series A 1993, Series B 1993, Series 1995, Series 1999, Series 2002, and Series 2003. A bond premium of \$52,101 will be amortized over the 25-year term of the bond at \$2,084 per year. (See Note G.)

Sinking Fund Requirements

Sinking fund requirements are equal to the debt service requirements. The annual requirements to amortize all bonds as of December 31, 2022, according to the bond documents, including interest payments are as follows:

WATER REVENUE BOND – SERIES 2001

YEAR	PRINCIPAL	INTEREST	TOTAL
2023	\$ 8,500	\$ 6,711	\$ 15,211
2024	9,000	6,435	15,435
2025	9,000	6,143	15,143
2026	9,500	5,850	15,350
2027	10,000	5,541	15,541
2028	10,000	5,216	15,216
2029	10,500	4,891	15,391
2030	11,000	4,550	15,550
2031	11,000	4,193	15,193
2032	11,500	3,835	15,335
2033	12,000	3,461	15,461
2034	12,000	3,071	15,071
2035	13,000	2,681	15,681
2036	13,000	2,259	15,259
2037	13,500	1,836	15,336
2038	14,000	1,398	15,398
2039	14,500	943	15,443
2040	14,500	471	14,971
	<u>\$ 206,500</u>	<u>\$ 69,485</u>	<u>\$ 275,985</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE I - BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2006

YEAR	PRINCIPAL	INTEREST	TOTAL
2023	\$ 21,000	\$ 31,845	\$ 52,845
2024	22,000	30,979	52,979
2025	22,000	30,071	52,071
2026	23,000	29,164	52,164
2027	24,000	28,215	52,215
2028	25,000	27,225	52,225
2029	26,000	26,194	52,194
2030	27,000	25,121	52,121
2031	29,000	24,008	53,008
2032	30,000	22,811	52,811
2033	31,000	21,574	52,574
2034	32,000	20,295	52,295
2035	34,000	18,975	52,975
2036	35,000	17,573	52,573
2037	36,000	16,129	52,129
2038	38,000	14,644	52,644
2039	39,000	13,076	52,076
2040	41,000	11,468	52,468
2041	43,000	9,776	52,776
2042	45,000	8,003	53,003
2043	46,000	6,146	52,146
2044	48,000	4,249	52,249
2045	55,000	2,269	57,269
	<u>\$ 772,000</u>	<u>\$ 439,810</u>	<u>\$ 1,211,810</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE I - BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2008

YEAR	PRINCIPAL	INTEREST	TOTAL
2023	\$ 26,590	\$ 49,429	\$ 76,019
2024	27,680	48,333	76,013
2025	28,820	47,191	76,011
2026	30,010	46,002	76,012
2027	31,250	44,764	76,014
2028	32,540	43,475	76,015
2029	33,880	42,133	76,013
2030	35,280	40,735	76,015
2031	36,740	39,280	76,020
2032	38,250	37,764	76,014
2033	39,830	36,187	76,017
2034	41,470	34,544	76,014
2035	43,180	32,833	76,013
2036	44,960	31,052	76,012
2037	46,820	29,197	76,017
2038	48,750	27,266	76,016
2039	50,760	25,255	76,015
2040	52,850	23,161	76,011
2041	55,030	20,981	76,011
2042	57,300	18,711	76,011
2043	59,670	16,347	76,017
2044	62,130	13,886	76,016
2045	64,690	11,323	76,013
2046	67,360	8,655	76,015
2047	70,140	5,876	76,016
2048	72,310	2,983	75,293
	<u>\$ 1,198,290</u>	<u>\$ 777,363</u>	<u>\$ 1,975,653</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE I - BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2021 CLSS

YEAR	PRINCIPAL	INTEREST	TOTAL
2023	\$ 6,500	\$ 3,434	\$ 9,934
2024	6,500	3,361	9,861
2025	6,500	3,288	9,788
2026	6,500	3,215	9,715
2027	6,500	3,142	9,642
2028	6,500	3,068	9,568
2029	7,000	2,993	9,993
2030	7,000	2,914	9,914
2031	7,000	2,835	9,835
2032	7,000	2,756	9,756
2033	7,000	2,677	9,677
2034	7,000	2,599	9,599
2035	7,500	2,517	10,017
2036	7,500	2,432	9,932
2037	7,500	2,348	9,848
2038	7,500	2,264	9,764
2039	7,500	2,180	9,680
2040	7,500	2,095	9,595
2041	8,000	2,008	10,008
2042	8,000	1,919	9,919
2043	8,000	1,829	9,829
2044	8,000	1,738	9,738
2045	8,000	1,647	9,647
2046	8,000	1,558	9,558
2047	8,500	1,466	9,966
2048	8,500	1,370	9,870
2049	8,500	1,274	9,774
2050	8,500	1,178	9,678
2051	8,500	1,083	9,583
2052	9,000	985	9,985
2053	9,000	883	9,883
2054	9,000	782	9,782
2055	9,000	681	9,681
2056	9,000	579	9,579
2057	9,500	475	9,975
2058	9,500	368	9,868
2059	9,500	261	9,761
2060	9,500	155	9,655
2061	9,000	51	9,051
	<u>\$ 308,500</u>	<u>\$ 72,408</u>	<u>\$ 380,908</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE I - BONDS PAYABLE (CONTINUED)

KRWFC REFUNDING BOND – SERIES 2016 D

YEAR	PRINCIPAL	FEES & INTEREST	TOTAL
2023	\$ 55,000	\$ 42,537	\$ 97,537
2024	55,000	40,062	95,062
2025	60,000	37,762	97,762
2026	60,000	35,062	95,062
2027	65,000	32,262	97,262
2028	65,000	29,662	94,662
2029	65,000	27,062	92,062
2030	70,000	24,537	94,537
2031	70,000	22,087	92,087
2032	75,000	19,550	94,550
2033	55,000	17,207	72,207
2034	60,000	15,051	75,051
2035	40,000	13,176	53,176
2036	45,000	11,582	56,582
2037	45,000	9,894	54,894
2038	45,000	8,150	53,150
2039	45,000	6,350	51,350
2040	45,000	4,550	49,550
2041	50,000	2,650	52,650
2042	30,000	600	30,600
	<u>\$ 1,100,000</u>	<u>\$ 399,793</u>	<u>\$ 1,499,793</u>

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE I – BONDS PAYABLE (CONTINUED)

BONDS PAYABLE IN THE AGGREGATE

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2023	\$ 117,590	\$ 133,956
2024	120,180	129,170
2025	126,320	124,455
2026	129,010	119,293
2027	136,750	113,924
2028-2032	747,190	488,895
2033-2037	729,260	351,150
2038-2042	767,190	207,919
2043-2047	513,490	76,989
2048-2052	115,310	8,873
2053-2057	45,500	3,400
2058-2061	37,500	835
Totals	<u>\$ 3,585,290</u>	<u>\$ 1,758,859</u>

NOTE J – LOAN PAYABLE

Direct Borrowing or Direct Placement

1. On September 13, 2021, the District enter into a promissory note with the Bank of the Mountains in the amount of \$27,601 for the purpose of paying the balance due on a short-term loan, collateralized with a Kubota excavator. Principal and interest of 3% are to be paid in full on September 13, 2022. As of December 31, 2022, the note was paid in full.
2. On November 25, 2022, the District enter into a promissory note with the Bank of the Mountains in the amount of \$24,801 for the purpose of paying the balance due on a short-term loan (see #1), collateralized with a Kubota excavator. Principal and interest of 4.5% are to be paid in full on November 25, 2023. The principal amount due as of December 31, 2022 was \$24,801.

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2023	\$ 24,801	\$ 1,116
Totals	<u>\$ 24,801</u>	<u>\$ 1,116</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE J – LOAN PAYABLE (Continued)

Direct Borrowing or Direct Placement

3. On March 24, 2022, the District entered into a promissory note with the Bank of the Mountains in the amount of \$30,827 for the purpose of purchasing a 2016 Ford truck, which collateralizes the note. Principal and interest of 3.5% are to be paid in full on March 24, 2023. The principal amount due as of December 31, 2022 was \$30,872.

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2023	\$ 30,872	\$ 1,079
Totals	<u>\$ 30,872</u>	<u>\$ 1,079</u>

Other Debt

1. May 4, 2021, the District entered into a loan agreement with Gateway Area Development District, Inc. (Lender) in the amount of \$150,000 for the purpose of working capital and the purchase of equipment, collateralized by all equipment, machinery, fixtures, inventory and accounts receivable, whether any of the foregoing is owned now or acquired later. Interest only payments at 2% interest rate are due each November and May, with the first interest payment to be forgiven. The principal amount will be due at the maturity date of May 4, 2023. Upon the occurrence of an Event of Default: (i) the outstanding principal balance hereunder together with any additional amounts secured by the Security Documents, at the option of the holder and without demand or notice of any kind (which are hereby expressly waived), may be accelerated and become immediately due and payable, (ii) the Note, together with all arrearages of interest will from the date of the occurrence of the Event of Default bear interest at the Default Rate, (iii) Borrower will pay to Lender all reasonable attorneys' fees, court costs and expenses incurred by Lender in connection with Lender's efforts to collect the indebtedness evidenced by the Note, and (iv) Lender may exercise from time to time any of the rights and remedies available to the holder under the Security Documents or under applicable law. Payments for the remaining years are as follows:

<u>Year Ended December 31</u>	<u>Scheduled Principal Payments</u>	<u>Interest</u>
2023	\$ 150,000	\$ 1,500
Totals	<u>\$ 150,000</u>	<u>\$ 1,500</u>

NOTE K – LEASES

- A. On November 17, 2017, the District entered a lease agreement for a 2017 Ford F250 Regular Cab with Enterprise FM Trust in the amount of \$20,898. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$699 includes initial charges with the monthly payments of \$461 continuing thereafter. Monthly payments include imputed interest of 11.655%. The balance of the lease at December 31, 2022 was \$0, however the District continues to make monthly payments of \$554.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE K – LEASES (Continued)

B. On November 28, 2017, the District entered a lease agreement for a 2017 Ford F350 Super Cab with Enterprise FM Trust in the amount of \$32,952. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$733 includes initial charges with the monthly payments of \$646 continuing thereafter. Monthly payments include imputed interest of 6.572%. The balance of the lease at December 31, 2022 was \$0, however the District continues to make monthly payments of \$420.

C. On April 5, 2018, the District entered a lease agreement for a 2018 Ford F150 Regular Cab with Enterprise FM Trust in the amount of \$21,895. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$876 includes initial charges with the monthly payments of \$469 continuing thereafter. Monthly payments include imputed interest of 10.364%. The balance of the lease at December 31, 2022 was \$1,837. Lease payments for the remaining years are as follows:

<u>Year Ended December 31</u>	<u>Scheduled Principal Payments</u>	<u>Imputed Interest</u>
2023	\$ 1,837	\$ 40
Totals	<u>\$ 1,837</u>	<u>\$ 40</u>

D. On October 31, 2018, the District entered a lease agreement for a 2018 Ford F150 Super Cab with Enterprise FM Trust in the amount of \$28,532. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$618 includes initial charges with the monthly payments of \$577 continuing thereafter. Monthly payments include imputed interest of 10.364%. The balance of the lease at December 31, 2022 was \$5,563. Lease payments for the remaining years are as follows:

<u>Year Ended December 31</u>	<u>Scheduled Principal Payments</u>	<u>Imputed Interest</u>
2023	\$ 5,563	\$ 202
Totals	<u>\$ 5,563</u>	<u>\$ 202</u>

E. On June 10, 2020, the District entered a lease agreement for a 2020 Ford Escape with Enterprise FM Trust in the amount of \$20,337. Payments begin on the delivery date of the vehicle and end 48 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. Monthly payments of \$577 include imputed interest of 12.574%. The balance of the lease at December 31, 2022 was \$8,837. Lease payments for the remaining years are as follows:

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE K – LEASES (Continued)

E. (Continued)

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2023	\$ 5,705	\$ 790
2024	3,132	116
Totals	<u>\$ 8,837</u>	<u>\$ 906</u>

- F.** On September 12, 2022, the District entered a lease agreement for a 2022 Dodge RAM 1500 4x4 Quad Cab with Enterprise FM Trust in the amount of \$37,988. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. Monthly payments of \$889 include imputed interest of 14.236%. The balance of the lease at December 31, 2022 was \$37,988. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2023	\$ 7,143	\$ 6,186
2024	6,697	3,965
2025	7,715	2,947
2026	8,889	1,774
2027	7,544	454
Totals	<u>\$ 37,988</u>	<u>\$ 15,326</u>

- G.** On September 12, 2022, the District entered a second lease agreement for a second 2022 Dodge RAM 1500 4x4 Quad Cab with Enterprise FM Trust in the amount of \$37,988. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. Monthly payments of \$889 include imputed interest of 14.236%. The balance of the lease at December 31, 2022 was \$37,988. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2023	\$ 7,143	\$ 6,186
2024	6,697	3,965
2025	7,715	2,947
2026	8,889	1,774
2027	7,544	454
Totals	<u>\$ 37,988</u>	<u>\$ 15,326</u>

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE K- LEASES (Continued)

H. Lease Payment in the Aggregate

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2023	\$ 27,391	\$ 13,404
2024	16,526	8,046
2025	15,430	5,894
2026	17,778	3,548
2027	15,088	908
Totals	<u>\$ 92,213</u>	<u>\$ 31,800</u>

NOTE L - RETIREMENT

General Information about the Pension Plan

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.520 administered by the Board of Trustees of the Kentucky Public Pension Authority (KPPA). This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five (5) percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six (6) percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KPPA insurance fund. The District's contribution rate for nonhazardous employees was 26.95 percent for the first six months of 2022 and 26.79 percent for the last six months of 2022.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, 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. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District's contribution for calendar year 2020 was \$58,376, calendar year 2021 was \$73,268, and, calendar year 2022 was \$109,974.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE L – RETIREMENT (Continued)

General Information about the Pension Plan (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For member participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Pensions Authority's annual financial report. This report may be obtained by writing the Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Pension Liabilities

At December 31, 2022, the District has a liability of \$795,119 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 using standard roll-forward techniques. 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 December 31, 2022, the District's proportion was .010999%.

For the year ended December 31, 2022, the District recognized pension expense of \$157,284. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE L – RETIREMENT (Continued)

Pension Liabilities (Continued)

SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS

NON-HAZARDOUS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Experience	\$ 850	\$ 7,081
Investment Experience	108,192	87,808
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	124,958	
District Contributions and Cash Balance Subsequent to the Measurement Date	<u>93,730</u>	
Total	<u>\$ 327,730</u>	<u>\$ 94,889</u>

The \$93,370 (non-hazardous) deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ending December 31, 2022. The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
2023	\$ 76,845
2024	\$ 46,360
2025	\$ (6,682)
2026	\$ 22,588
2027	\$ 0
Thereafter	\$ 0

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability

For financial reporting, the actuarial valuation as for June 30, 2022, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles.

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 table below.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE L - RETIREMENT (CONTINUED)

Pension Liabilities (Continued)

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	100%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

A single discount rate of 6.25% was used to measure the total pension liability for the non-hazardous plan for the fiscal year ending June 30, 2022. The single discount rate is based on the expected rate of return on pension plan investments for each plan. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the non-hazardous plan's fiduciary net position and future contributions were separately projected and were each sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each plan.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE L - RETIREMENT (CONTINUED)

Pension Liabilities (Continued)

The projection of cash flows used to determine the single discount rate for each plan must include an assumption regarding actual employer contributions made each future year. Except where noted below, future contributions are projected assuming that each participating employer in each pension plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy. The assumed future employer contributions reflect the provision of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

The following presents the net pension liability of the District, calculated using the discount rate of percent, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.25 percent) or one-percentage-point higher (7.25 percent) than the current rate for non-hazardous:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
NON-HAZARDOUS			
District's Net Pension Liability	\$ 993,800	\$ 795,119	\$ 630,793

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2021

Determined by the	
Actuarial Valuation as of:	June 30, 2020
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Amortization Method:	Level Percent of Pay
Amortization Period:	30-year closed period at June 30, 2019 <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 10.30%, varies by service
Mortality:	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
Phase-In Provision:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE L - RETIREMENT (CONTINUED)

401K

In January 2001, the district began a non-matching 401K deferred compensation plan. The employees may contribute twenty-five percent (25%) of their compensation, not to exceed \$10,500 annually. Participation is optional. Benefits are available upon separation of service or attainment of age fifty-nine and one-half (59.5) years. Benefits must commence by the later of: April 1 of the calendar year in which employment ends, or the calendar year in which the employee reaches age seventy and one-half (70.5) years of age.

NOTE M – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

At December 31, 2022, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

Plan Description

Employees of the District are provided hospital and medical insurance through the Kentucky Public Pension Authority's (KPPA) Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KPPA Board of Trustees is responsible for the proper operation and administration of the KPPA. The KPPA issues a publicly available financial report that can be obtained by writing the Kentucky Public Pension Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

For financial reporting the actuarial valuation as for June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles. Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003 by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA.

The total OPEB liability as of June 30, 2022 is determined using these updated provisions. There were no other material plan provision changes and it is the opinion of GRS that the procedures are reasonable and appropriate, and comply with applicable requirements under GASB Statement No. 75.

Based on the June 30, 2020 actuarial valuation report, the actuarial methods and assumptions used to calculate the required contributions are below:

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE M – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability (Continued)

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30-year closed period at June 30, 2019 (<i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>)
Payroll Growth Rate	2.00%
Investment Return	6.25%
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service
Mortality	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
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post – 65	Initial trend starting at 6.30% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement. Additionally, Humana provided “Not to Exceed” 2022 Medicare premiums, which were incorporated and resulted in a assumed 2.90% increase in Medicare premiums at January 1, 2022.
CERS Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance the HB 362 enacted in 2018

Single Discount Rate

Single discount rates of 5.70% for the CERS non-hazardous insurance plan was used to measure the total OPEB liability as of June 30, 2022. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index) as of June 30, 202. 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 pan 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 the understanding of GRS 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.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE M – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Single Discount Rate (Continued)

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

Long-Term Expected Rate of Return

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 tables below. The current long-term assumption is 2.30% per annum for non-hazardous.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	100%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

Deferred Inflows and Outflows of Resources

The deferred inflows and outflows of resources and OPEB Expense columns included in the Schedule of OPEB Amounts by Employer include only certain categories of deferred inflows of resources and deferred outflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of OPEB Amounts by Employer does not include deferred inflows/outflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net OPEB liability as of June 30, 2022 is based on the June 30, 2021 actuarial valuation rolled forward. Deferred inflows and outflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE M – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Sensitivity of the Net OPEB to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.70%) or one percentage point higher (6.70%) follows:

NON-HAZARDOUS	<u>1% Decrease (4.70%)</u>	<u>Current Discount Rate (5.70%)</u>	<u>1% Increase (6.70%)</u>
District's Net OPEB Liability	\$ 290,131	\$ 217,027	\$ 156,595

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates follows:

NON-HAZARDOUS	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's Net OPEB Liability	\$ 161,355	\$ 217,027	\$ 283,879

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB

At December 31, 2022, the District reported a liability of \$217,027 (non-hazardous) for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year June 30, 2022. This method is to be reflective of the employers' long-term contribution effort. At December 31, 2022, the District's proportion was 0.010997%, non-hazardous.

For the year ended December 31, 2022, the District recognized OPEB expense of \$48,605 nonhazardous. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE M – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB (Continued)

SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS

NON-HAZARDOUS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Experience	\$ 21,846	\$ 49,769
Changes in Assumptions	34,324	28,283
Investment Experience	40,413	31,604
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	50,734	2,554
District Contributions and Cash Balance Subsequent to the Measurement Date	<u>(35,602)</u>	
Total	<u>\$ 111,715</u>	<u>\$ 112,210</u>

The \$(35,602) (non-hazardous) of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending December 31, 2022. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:

	<u>Non-Hazardous</u>
2023	\$ 15,260
2024	\$ 13,701
2025	\$ (1,417)
2026	\$ 7,564
2027	\$ 0
Thereafter	\$ 0

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual expense are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE N – COMPENSATED ABSENCES

Upon termination of employment from the District, an employee who has been an employee of the District for a total of twelve months shall be compensated for a maximum of fifteen days of accrued annual leave. Employees accumulate 3.69 hours of annual leave per pay period. Employees employed less than six months upon termination will not be compensated for accrued annual leave, unless approved by the Water District Manager. Annual leave accrued as of December 31, 2022 and 2021 is \$23,872 and \$13,566, respectively.

NOTE O – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May, 25, 2023, which is the date the financial statements were available to be issued. No events were identified that would have impacted the financial statements for the year ended December 31, 2022.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY

For the Years Ended December 31, 2022 and 2021

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Non-Hazardous								
District's Proportion of the Net Pension Liability (Asset)	0.006712%	0.007105%	0.006721%	0.006825%	0.007287%	0.006908%	0.007900%	0.009016%	0.010999%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 218,000	\$ 305,472	\$ 330,925	\$ 399,488	\$ 443,801	\$ 485,843	\$ 605,923	\$ 574,841	\$ 795,119
District's Covered-Employee Payroll	\$ 181,675	\$ 175,555	\$ 162,411	\$ 169,633	\$ 185,528	\$ 179,554	\$ 208,314	\$ 256,031	\$ 332,812
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Employee	119.99%	174.00%	203.76%	235.50%	239.21%	270.58%	290.87%	224.52%	238.91%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	59.97%	55.50%	53.32%	53.54%	53.54%	51.67%	57.33%	52.42%

Note:

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICTS' PENSION CONTRIBUTIONS
Fiscal Years Ended December 31, 2022 and 2021

	Non-Hazardous									
<i>(Actuarial Valuation Report Year)</i>	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Contractually Required Pension Contribution	\$ 29,088	\$ 21,212	\$ 19,095	\$ 23,180	\$ 26,151	\$ 28,262	\$ 39,056	\$ 44,445	\$ 69,286	
Contractually Required Pension Contribution	29,088	21,212	19,095	23,180	26,151	28,262	39,056	44,445	69,286	
Pension Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
District's Covered-Employee Payroll	\$ 181,675	\$ 175,555	\$ 162,411	\$ 169,633	\$ 185,528	\$ 179,554	\$ 208,314	\$ 256,031	\$ 332,812	
Pension Contributions as a Percentage of Covered-Employee Payroll	16.01%	12.08%	11.76%	13.66%	14.10%	15.74%	18.75%	17.36%	20.82%	

Note:

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY

For the Years Ended December 31, 2022 and 2021

	<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous					
		2017	2018	2019	2020	2021	2022
District's Proportion of the Net OPEB Liability (Asset)		0.006825%	0.007826%	0.006914%	0.007898%	0.009014%	0.010997%
District's Proportionate Share of the Net OPEB Liability		\$ 137,206	\$ 129,361	\$ 116,290	\$ 190,713	\$ 172,569	\$ 217,027
District's Covered-Employee Payroll		\$ 169,633	\$ 185,528	\$ 179,554	\$ 208,314	\$ 256,031	\$ 332,812
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll		80.88%	69.73%	64.77%	91.55%	67.40%	65.21%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		52.39%	57.62%	57.62%	51.67%	62.91%	60.95%

Note:

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICTS' OPEB CONTRIBUTIONS
Fiscal Years Ended December 31, 2022 and 2021

<i>(Actuarial Valuation Report Year)</i>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
	Non-Hazardous					
Contractually Required Pension Contribution	\$ 8,720	\$ 10,032	\$ 9,175	\$ 9,632	\$ 10,962	\$ 12,683
Pension Contributions in Relation to the						
Contractually Required Pension Contribution	8,720	10,032	9,175	9,632	10,962	12,683
Pension Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's Covered-Employee Payroll	\$169,633	\$185,528	\$179,554	\$208,314	\$256,031	\$332,812
Pension Contributions as a Percentage of						
Covered-Employee Payroll	5.14%	5.41%	5.11%	4.62%	4.28%	3.81%

Note:

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

MORGAN COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2022 and 2021

Note 1. General Information

Contributions

Contractually required employer contributions reported on the Schedule of the District's Pension Contribution 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 the District's OPEB Contributions.

Payroll

The District's covered payroll reported on the Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of the District's 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 in the financial statements.

Note 2. Changes in Assumptions

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

December 31, 2020 – Pension and OPEB

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

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

December 31, 2019 – Pension and OPEB

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

- The assumed rate of salary increases was increased from 3.50% to 3.3% to 10.3% on average for non-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.

MORGAN COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2022 and 2021

Note 2. Changes in Assumptions (Continued)

December 31, 2017 – Pension

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

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

December 31, 2016 – Pension and OPEB

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

December 31, 2015 – Pension

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

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

December 31, 2014 – Pension

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

December 31, 2013 – Pension

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired member and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

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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 Directors
Morgan County Water District
West Liberty, 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 business-type activities of Morgan County Water District, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 25, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morgan County Water District's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morgan County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Morgan County Water District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying comments and recommendations as item 2022-001 that we consider to be a material weakness.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morgan County Water 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 statement. 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*.

Morgan County Water District's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Morgan County Water District's response to the findings identified in our audit and described in the accompanying comments and recommendations. Morgan County Water 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.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky

May 25, 2023

**MORGAN COUNTY WATER DISTRICT
COMMENTS AND RECOMMENDATIONS
December 31, 2022 and 2021**

MATERIAL WEAKNESS

2022-001 The District Lacks Control Over Disbursements

Condition: When testing disbursements, we noted the following:

- A significant number of invoices were paid later than thirty days, including the two checks written in March 2022 that did not clear until January 2023.
- It appeared checks are written and a list presented to the Board; however, the checks do not appear to clear timely. For example, two checks totaling \$33,800, presented to the Board on a check list dated March 2022 did not clear until January 2023.
- It appears the Board is presented a list of bank balances for all accounts which shows a positive balance; however, it does not appear that the Board is presented the reconciled (book) balance, including all outstanding checks. Because of outstanding/held checks the reconciled balance of the operating accounts was a negative amount, in the aggregate, for seven (7) months during 2022. Individually, the O&M account had a negative book balance every month of 2022. For example, the bank balance (as presented to the Board) for the five (5) unrestricted bank accounts (O&M, payroll, water revenue, emergency savings revenue, and credit card revenue) for the month of July 2022 was \$59,449. The corresponding book balance was (\$30,006). The five (5) unrestricted bank accounts are considered the operating revenue accounts.
- Coding was inconsistent.

Criteria: Good internal controls would dictate that the information presented to the governing body (the Board of Directors) should be produced from the accounting system (QuickBooks).

Pursuant to KRS 65.140, local governments are to pay invoices within 30 days unless an arrangement is made with the vendor.

The Public Service Commission (PSC) requires utilities to use a uniform system of accounts.

Effect: The Board cannot make proper financial decisions without accurate financial information.

Cause: Improper presentation of financial information.

Recommendation: We recommend the information presented to the Board at each monthly meeting include a balance sheet with reconciled bank balances and a profit and loss statement produced from the District's accounting system. We recommend the District make every effort to comply with KRS 65.140. Additionally, we recommend any arrangements made with vendors to extend the thirty days or to make partial payments be in writing and maintained on record.

Morgan County Water District's Response: We will follow recommendations made by providing Board with balance sheet and reconciled bank balances.