MORGAN COUNTY WATER DISTRICT

AUDIT OF FINANCIAL STATEMENTS

For The Years Ended

December 31, 2023 and 2022

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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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the 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, 2023 and 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 statements, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2024, 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
July 16, 2024

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash - Unrestricted	$	$ 61,013
Cash - Restricted	188,903	272,774
Accounts Receivable	145,527	166,680
Unbilled Receivables	101,820	101,820
Allowance for Doubtful Accts.	(13,595)	(13,595)
Prepaid Insurance	7,412	7,412
Total Current Assets	430,067	596,104
NONCURRENT ASSETS		
Prepaid Capital Lease		
(Net of Accumulated Amortization of $51,317 and $47,041)	372,047	376,324
Cash - Restricted	49,072	49,372
Total Noncurrent Assets	421,119	425,696
PROPERTY AND EQUIPMENT		
Construction in Progress	3,190,795	60,000
Water Lines	23,659,789	23,560,309
Accum. Depr. Water Lines	(8,009,768)	(7,541,983)
Building Improvements	16,296	16,296
Accum. Depr. Building Improvements	(1,833)	(1,018)
Office Equipment	24,430	24,430
Accum. Depr. Office Equipment	(11,654)	(8,321)
Hydrants	20,800	20,800
Accum. Depr. Hydrants	(728)	(312)
Zone Pit Meters	101,600	40,640
Accum. Depr. Zone Pit Meters	(2,371)	(677)
PRV Pits	39,069	39,069
Accum. Depr. PRV Pits	(1,519)	(651)
Equipment and Vehicles	510,745	552,571
Accum. Depr. Equipment and Vehicles	(355,522)	(378,466)
Leased Vehicles	211,118	200,589
Accum. Depr. Leased Vehicles	(122,404)	(119,849)
Meters	50,535	
Accum. Depr. Meters	(391)	
Land	203,502	71,076
Total Property and Equipment	19,522,489	16,534,503
TOTAL ASSETS	20,373,675	17,556,303
DEFERRED OUTFLOWS OF RESOURCES		
Pension Liabilities	511,654	327,730
OPEB Liabilities	148,710	111,714

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2023 and 2022

	2023	2022
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Cash - Unrestricted	5,805	
Accrued Interest	63,362	63,362
Accrued Expenses	239,587	312,637
Accrued Salaries	8,600	3,819
Accounts Payable-Retirement	39,533	18,207
Lease Payable	21,679	28,301
Loan Payable	180,254	55,673
Bonds Payable	120,180	117,590
Total Current Liabilities	679,000	599,589
LONG-TERM LIABILITIES		
Compensated Absences	21,533	23,872
Net Pension Liability	999,243	795,119
OPEB Liability	(21,501)	217,027
Loan Payable	3,174,866	150,000
Lease Payable	71,856	63,912
Bonds Payable	3,347,520	3,467,700
	7,593,517	4,717,630
OTHER LIABILITIES		
Customer Deposits	50,771	48,094
TOTAL LIABILITIES	8,323,288	5,365,313
DEFERRED INFLOWS OF RESOURCES		
Refunding Bond Premium		
(Net of Accumulated Amortization of $16,672 and $14,588)	35,429	37,513
Pension Liabilities	215,873	94,889
OPEB Liabilities	381,431	112,210
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	12,507,343	13,164,984
Restricted for Debt Service	181,565	128,908
Restricted for Depreciation Reserve	3,507	2,505
Restricted for Construction	50	50
Unrestricted	(614,447)	(910,625)
TOTAL NET POSITION	$ 12,078,018	$ 12,385,822

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For The Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Water Collection	$ 2,050,920	$ 1,985,898
Sales Tax	(8,486)	(7,887)
Utility And Local Tax	(56,490)	(55,437)
Tap-On Fees	52,570	145,288
Miscellaneous	153,332	229,652
Net Operating Revenues	2,191,846	2,297,514
OPERATING EXPENSES		
Advertising	105	1,519
Bank Charges	8,561	4,889
Collection Expense		223
Depreciation	523,878	519,891
Fuel	30,207	37,758
Insurance	129,097	109,656
Miscellaneous	10,912	19,904
Office Supplies	19,256	29,142
Contractual Services	104,831	123,570
Payroll Taxes	36,397	33,243
Postage	18,082	15,912
Repairs & Maintenance	15,622	8,335
Leasing and Maintenace Fees	14,707	96
Retirement	249,624	157,284
OPEB	17,696	48,605
Salaries	475,782	444,858
Supplies & Testing	125,949	177,687
Travel	19,886	20,804
Uniforms	5,739	4,930
Unemployment Insurance	218	582
Utilities and Telephone	64,964	59,385
Water Purchased	734,814	717,565
Worker's Compensation	7,567	6,175
Total Operating Expenses	2,613,894	2,542,013
NET OPERATING INCOME	(422,048)	(244,499)

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
For The Years Ended December 31, 2023 and 2022

	2023	2022
NON OPERATING REVENUES (EXPENSES)		
Interest and Amortization Expense	(160,411)	(144,220)
Interest Income	609	635
Relocation Proceeds	14,600	
Relocation Expense	(17,100)	
Insurance Proceeds	29,012	6,600
Gain (Loss) on Disposal of Fixed Asset	13,625	1,200
Grant Proceeds	166,933	346,843
Total Non Operating Revenues (Expenses)	47,268	211,058
Change in Net Position	(374,780)	(33,441)
Total Net Position - Beginning (Restated)	12,452,798	12,419,263
Total Net Position - Ending	$ 12,078,018	$ 12,385,822

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from Customers	$ 2,249,470	$ 2,322,290
Miscellaneous Income	28,504	25,293
Payments to Vendors	(1,331,604)	(1,238,988)
Payments for Payroll and Related Expenses	(737,785)	(664,724)
Net Cash Provided/(Used) by Operating Activities:	208,585	443,871
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net (Deposits)/Withdrawals Customer Deposit Account	1,302	(6,368)
Net (Deposits)/Withdrawals Surcharge Account	136,528	(77,316)
Net Customer Deposits (Returned)/Collected	2,677	8,677
Net Cash Provided/(Used) by Noncapital Financing Activities	140,507	(75,007)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest Expense	(158,226)	(99,561)
Net (Deposits)/Withdrawals Bond Sinking Fund	(52,657)	(35,590)
Net (Deposits)/Withdrawals Dep. Reserve Fund	(1,002)	(1)
Net (Deposits)/Withdrawals Cash - Construction		534
Grant Proceeds	166,933	346,843
Relocation Proceeds	14,600	
Relocation Expense	(17,100)	
Insurance Settlement	29,012	6,600
Constructed Fixed Assets	(3,130,795)	(132,562)
Sale of Assets	13,625	1,200
Purchase of Fixed Assets	(314,223)	(405,852)
Proceeds from Borrowed Money	3,158,221	55,673
Increase in Lease Payable	31,427	75,975
Reduction in Lease Payable	(30,105)	(31,774)
Reduction in Bonds Payable	(117,590)	(82,030)
Reduction in Loan Payable	(8,729)	(27,601)
Net Cash Provided/(Used) by Capital and Related Financing Activities	(416,609)	(328,146)

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

		2023		2022
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash Received from Interest		609		635
Net Cash Provided/(Used) by Investing Activities		609		635
INCREASE/(DECREASE) IN CASH		(66,908)		41,353
CASH AT BEGINNING OF YEAR		61,103		19,660
CASH AT END OF YEAR	$	(5,805)	$	61,013

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

Net Operating Income	$	(422,048)	$	(244,499)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:				
Depreciation		523,878		519,891
Changes in Assets/Liabilities:				
Accounts Receivable		21,153		(13,255)
Retirement Payable		21,327		5,572
Net OBEB Liability		(238,528)		44,458
Net Pension Liability		204,124		220,278
Deferred Outflows		(220,918)		(183,040)
Deferred Inflows		390,205		9,191
Accounts Payable		(63,704)		122,499
Accounts Payable - Water Purchases				(54,123)
Accrued Salaries		4,781		
Compensated Absences		(2,338)		10,305
Payroll Tax Liability		(9,347)		6,594
Net Cash Provided/Used by Operating Activities	$	208,585	$	443,871

Supplementary Information		2023		2022
Total Interest Charged to Expense	$	158,218	$	142,138

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

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.

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.

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 is 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.

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.

Category	Life in years
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, 2023 and 2022 are $523,878 and $519,891, 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.

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, 2023, 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, 2023, 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 principal and interest. At December 31, 2023, $177,459 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2024. The balance in these accounts at December 31, 2023 was $181,565.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit $85 per month into the account. The District had $3,507 on deposit in this account for the purpose of maintaining the water system at December 31, 2023.

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, 2023:

		2023		2022
Customer Deposit Accounts	$	45,516	$	46,817
Bond and Interest Sinking Fund		181,565		128,908
Surcharge Account		7,338		143,866
Depreciation Reserve Fund		3,507		2,505
Construction Account		50		50
Total Restricted Cash Accounts	$	237,976	$	322,146

NOTE E – INSURANCE COVERAGE

For the fiscal years ended December 31, 2023 and 2022, 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, 2023 and 2022 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, 2023 and 2022, the bond premium, net of accumulated amortization of $16,672 and $14,588, is $35,427 and $37,513, respectively and is classified as a deferred inflow.

NOTE H – PROPERTY, PLANT AND EQUIPMENT

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

Primary Government: Business-Type Activities:	December 31, 2022 Beginning Balance (Restated)	Increases	Decreases	December 31, 2023 Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 71,076	$ 132,426	$	$ 203,502
Construction In Progress	60,000	3,140,795	(10,000)	3,190,795
Total Capital Assets Not Being Depreciated	131,076	3,273,221	(10,000)	3,394,297
Capital Assets, Being Depreciated:				
Office Equipment	24,430			24,430
Building Improvement	16,296			16,296
Vehicles	95,672		(48,151)	47,521
Leased Vehicles	200,589	31,426	(20,897)	211,118
Equipment (Restated)	463,224			463,224
Hydrants	20,800			20,800
Zone Pit Meters (Restated)	50,800	50,800		101,600
Meters (Restated)	7,825	42,710		50,535
PRV Pits	39,069			39,069
Waterlines (Restated)	23,602,929	56,861		23,659,790
Total Capital Assets Being Depreciated	24,521,634	181,797	(69,048)	24,634,383
Less Accumulated Depreciation for:				
Office Equipment	(8,321)	(3,333)		(11,654)
Building Improvement	(1,019)	(815)		(1,834)
Vehicles	(54,909)	(9,500)	48,068	(16,341)
Leased Vehicles	(119,849)	(23,453)	20,897	(122,405)
Equipment	(323,557)	(15,624)		(339,181)
Meters		(391)		(391)
Hydrants	(312)	(416)		(728)
Zone Pit Meters	(677)	(1,693)		(2,370)
PRV Pits	(651)	(868)		(1,519)
Waterlines	(7,541,983)	(467,785)		(8,009,768)
Total Accumulated Depreciation	(8,051,278)	(523,878)	68,965	(8,506,191)
Total Capital Assets, Being Depreciated, Net	16,470,356	(342,081)	(83)	16,128,192
Business-Type Activities Capital Assets, Net	$ 16,601,432	$ 2,931,140	$ (10,083)	$ 19,522,489

NOTE I – BONDS PAYABLE

The following is a summary of the long-term debt transactions of the Morgan County Water District for the year ended December 31, 2023:

Water Utility Fund Revenue Bonds

	2023	2022
Bonds Payable - Beginning	$ 3,585,290	$ 3,667,320
Bonds Retired	(117,590)	(82,030)
Bonds Payable - Ending	$ 3,467,700	$ 3,585,290

Bonds payable at December 31, 2023 consists of the following issues:

$332,000 Water revenue bonds, Series 2001, maturing through January 1, 2040, with interest at 3.25 percent	$ 198,000
$1,000,000 Water revenue bonds, Series 2006, maturing through January 1, 2045, with interest at 4.125 percent	751,000
$1,446,000 Water revenue bonds, Series 2008, maturing through January 1, 2048, with interest at 4.125 percent	1,171,700
$315,000 Water revenue bonds, Series 2021 CLSS, maturing through January 1, 2061, with interest at 1.125%	302,000
$1,330,000 KRWFC revenue bonds, Series 2016 D, maturing through January 1, 2042 with interest varied from 3.5% - 5%	1,045,000
Total	$ 3,467,700

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, 2023, required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash.

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, 2023, according to the bond documents, including interest payments are as follows:

WATER REVENUE BOND – SERIES 2001

YEAR	PRINCIPAL	INTEREST	TOTAL
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
	$ 198,000	$ 62,774	$ 260,774

NOTE I – BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2006

YEAR	PRINCIPAL	INTEREST	TOTAL
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
	$ 751,000	$ 407,965	$ 1,158,965

NOTE I – BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2008

YEAR	PRINCIPAL	INTEREST	TOTAL
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
	$ 1,171,700	$ 727,934	$ 1,899,634

NOTE I – BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2021 CLSS

YEAR	PRINCIPAL	INTEREST	TOTAL
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
	$ 302,000	$ 68,974	$ 370,974

NOTE I – BONDS PAYABLE (CONTINUED)

KRWFC REFUNDING BOND – SERIES 2016 D

YEAR	PRINCIPAL	FEES & INTEREST	TOTAL
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
	$ 1,045,000	$ 357,256	$ 1,402,256

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE I – BONDS PAYABLE (CONTINUED)

BONDS PAYABLE IN THE AGGREGATE

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	$ 120,180	$ 129,170
2025	126,320	124,455
2026	129,010	119,293
2027	136,750	113,924
2028	139,040	108,646
2029-2033	752,980	461,355
2034-2038	737,680	323,766
2039-2043	727,610	178,519
2044-2048	480,630	57,020
2049-2053	43,500	5,403
2054-2058	46,000	2,885
2059-2061	28,000	467
Totals	$ 3,467,700	$ 1,624,903

NOTE J – LOAN PAYABLE

Direct Borrowing or Direct Placement

1. On November 25, 2022, the District entered 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, collateralized with a Kubota excavator. Principal and interest of 4.5% were to be paid in full on November 25, 2023; however, arrangements were not made to pay the note. The principal amount remaining due as of December 31, 2023 was $24,801.

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	$ 24,801	$ 1,116
Totals	$ 24,801	$ 1,116

NOTE J – LOAN PAYABLE (Continued)

Direct Borrowing or Direct Placement

2. 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. As of December 31, 2023, the note was paid in full.

3. On May 9, 2023, the District entered into a promissory note with the Bank of the Mountains in the amount of $28,027 for the purpose of renewing the note to purchase a 2016 Ford truck (see #2.), which collateralizes this note. Principal and interest of 5.5% are to be paid in full on May 9, 2024. The principal amount due as of December 31, 2023 was $28,027.

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	$ 28,027	$ 1,541
Totals	$ 28,027	$ 1,541

4. On August 31, 2023, the District entered into a promissory note with the Bank of the Mountains in the amount of $127,426 for the purpose of purchasing land, which collateralizes this note. Principal and interest of 5.75% are to be paid in full on August 31, 2024. The principal amount due as of December 31, 2023 was $127,426.

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	$ 127,426	$ 7,327
Totals	$ 127,426	$ 7,327

Other Debt

1. On 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 was 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.

NOTE J – LOAN PAYABLE (Continued)

Other Debt (Continued)

1. (Continued) On May 4, 2023, the Lender and Borrower agreed to change the repayment terms of the existing indebtedness with an extension of the maturity date to May 4, 2025. Beginning on July 4, 2023, and continuing on the 4th day of each month, payments of principal and interest in the amount of $1,093 shall be due and payable until the new maturity date. The interest rate will remain at 2%. Collateralization of the loan remains the same. All principal, interest, fees, charges, costs and expenses and all indebtedness due and unpaid at maturity shall be due and payable in full upon said maturity date. The principal amount due as of December 31, 2023 was $144,071.
Payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal Payments	Interest
2024	$ 10,326	$ 2,787
2025	133,745	1,100
Totals	$ 144,071	$ 3,887

2. On January 9, 2023, the District entered an assistance agreement with Kentucky Infrastructure Authority to provide a construction loan for the purpose of replacing existing waterlines along a specified area of Morgan County in the amount of $3,262,000 with up to $1,000,000 in principal forgiveness. An interest rate of .25% will be applied to the loan. At December 31, 2023, $3,030,795 was drawn on the loan. As of December 31, 2023, there were no scheduled payments.

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 monthly payments were extended 12 months at $544 per month through November 2023. The lease was again extended 12 months at $25 per month through November 2024. As of December 31, 2023, operating lease expenses of $5,594 were recorded on the financial statements.

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, 2023 was $0, however the District continues to make monthly payments of $420. In May 2023, the vehicle was returned to Enterprise and sold, per Master Lease Agreement. Proceeds of $11,499 from the sale was paid to the District. As of December 31, 2023, operating lease expenses of $2,102 were recorded on the financial statements.

NOTE K – LEASES (Continued)

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 $0, however monthly payments were extended 12 months at $418 per month through April 2024. As of December 31, 2023, operating lease expenses of $3,341 were recorded on the financial statements.

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 $0, however monthly payments were extended 12 months at $506 per month through October 2024. As of December 31, 2023, operating lease expenses of $1,012 were recorded on the financial statements.

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, 2023 was $3,312. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2024	$ 3,132	$ 116
Totals	$ 3,132	$ 116

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, 2023 was $30,845. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2024	$ 6,697	$ 3,965
2025	7,715	2,947
2026	8,889	1,774
2027	7,544	454
Totals	$ 30,845	$ 9,140

NOTE K– LEASES (Continued)

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, 2023 was $30,845. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2024	$ 6,697	$ 3,965
2025	7,715	2,947
2026	8,889	1,774
2027	7,544	454
Totals	$ 30,845	$ 9,140

H. On May 2, 2023, the District entered a lease agreement for a 2023 Ford F150 XLT 4x4 Regular Cab with Enterprise FM Trust in the amount of $31,426. 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 $714 include imputed interest of 12.938%. The balance of the lease at December 31, 2023 was $28,713. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2024	$ 5,152	$ 3,416
2025	5,860	2,709
2026	6,664	1,904
2027	7,580	989
2028	3,457	113
Totals	$ 28,713	$ 9,131

NOTE K– LEASES (Continued)

I. Lease Payment in the Aggregate

Year Ended December 31	Scheduled Principal Payments		Imputed Interest	
2024	$	21,678	$	11,462
2025		21,290		8,603
2026		24,442		5,452
2027		22,668		1,897
2028		3,457		113
Totals	$	93,535	$	27,527

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 2023 and 26.79 percent for the last six months of 2023.

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 2021 was $73,268, calendar year 2022 was $109,974, and calendar year 2023, was $108,595.

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:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
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, 2023, the District has a liability of $999,243 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 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, 2023, the District's proportion was .015573%.

For the year ended December 31, 2023, the District recognized pension expense of $249,624. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE L – RETIREMENT (Continued)

Pension Liabilities (Continued)

SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS

NON-HAZARDOUS	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	$ 51,729	$ 2,715
Changes in Assumptions		91,581
Investment Experience	107,947	121,577
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	255,434	
District Contributions and Cash Balance Subsequent to the Measurement Date	96,544	
Total	$ 511,654	$ 215,873

The $96,544 (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, 2023. 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:

	Non-Hazardous
2024	$ 128,041
2025	$ 58,560
2026	$ 22,307
2027	$ (9,672)
2028	$ 0
Thereafter	$ 0

<u>Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability</u>

For financial reporting, the actuarial valuation as for June 30, 2023, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2023 were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles.

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.

NOTE L – RETIREMENT (CONTINUED)

Pension Liabilities (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	**60.00%**	
Public Equity	50.00%	590.00%
Private Equity	10.00%	11.73%
Fixed Income	**20.00%**	
Core Bonds	10.00%	2.45
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected	**20.00%**	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return	**100%**	**5.75%**
Long Term Inflation Assumption		**2.50%**
Expected Nominal Return for Portfolio		**8.25%**

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 6.50% was used to measure the total pension liability for the non-hazardous plan for the fiscal year ending June 30, 2023. 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.

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 (5.50 percent) or one-percentage-point higher (7.50 percent) than the current rate for non-hazardous:

NON-HAZARDOUS	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
District's Net Pension Liability	$ 1,261,604	$ 999,243	$ 781,210

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

Determined by the Actuarial Valuation as of:	June 30, 2021
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 *Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases*
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

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, 2023, 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 stature under Kentucky Revised Statue Section 61.645. The KPPA Board of Trustees is responsible for the proper operation and administration 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, 2023, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2023 were based on an actuarial valuation date of June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles. 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, 2023 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, 2021 actuarial valuation report, the actuarial methods and assumptions used to calculate the required contributions are below:

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, 2021
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 (*Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases*)
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 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 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, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 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 an assumed 2.90% increase in Medicare premiums at January 1, 2022.

Single Discount Rate

Single discount rates of 5.93% for the CERS non-hazardous insurance plan was used to measure the total OPEB liability as of June 30, 2023. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.25%, as reported in Fidelity Index's "20-Year Municipal GO AA Index) as of June 30, 2023. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance 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.

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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	**60.00%**	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income	**20.00%**	
Core Bonds	10.00%	2.45%
Specialty Credit/High Yield	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected	**20.00%**	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return	**100%**	**5.75%**
Long Term Inflation Assumption		**2.50%**
Expected Nominal Return for Portfolio		**8.25%**

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, 2023 is based on the June 30, 2022 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.

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 (4.93%) or one percentage point higher (6.93%) follows:

NON-HAZARDOUS	1% Decrease (4.93%)	Current Discount Rate (5.93%)	1% Increase (6.93%)
District's Net OPEB Liability	$ 40,349	$ (21,501)	$ (73,293)

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	1% Decrease	Current Trend Rate	1% Increase
District's Net OPEB Liability	$ (68,915)	$ (21,501)	$ 36,742

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

At December 31, 2023, the District reported a liability of $(21,501) (non-hazardous) for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2023 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, 2023. This method is to be reflective of the employers' long-term contribution effort. At December 31, 2023, the District's proportion was 0.015573%, non-hazardous.

For the year ended December 31, 2023, the District recognized OPEB expense of $17,696 nonhazardous. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	$ 14,990	$ 305,295
Changes in Assumptions	42,313	29,488
Investment Experience	40,239	45,229
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	109,103	1,419
District Contributions and Cash Balance Subsequent to the Measurement Date	(57,935)	
Total	$ 148,710	$ 381,431

The $(57,935) (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, 2023. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:

	Non-Hazardous
2024	$ (35,689)
2025	$ (55,823)
2026	$ (41,027)
2027	$ (42,248)
2028	$ 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.

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, 2023 and 2022 is $21,533 and $23,872, respectively.

NOTE O – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 16, 2024, which is the date the financial statements were available to be issued. Although we noted that there continues to be vendors paid later than thirty days, checks that do not appear to clear timely, and a negative book balance in the O&M account (issues addressed in the Schedule of Findings and Questioned Costs 2023-001 located at the end of the report), we do not consider there to be a going concern issue because it would appear there is a legal and moral obligation by other governmental entities to continue to provide clean drinking water to the citizens of Morgan County. As of July 26, 2024, both the board chair and general manager have resigned their positions at Morgan County Water District.

NOTE P – RELATED PARTY TRANSACTION

A board member is an owner of a company paid $4,602 for services.

NOTE Q – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the Total Net Position -Beginning Balance in the year ending December 31, 2023 to capitalize assets purchased in the prior year. Waterlines increased by $42,620, Zone Meters increased by $10,160, Meters increased by $7,825 and Equipment increased by $6,325 for a total adjustment to "Capital Assets Being Depreciated" of $66,930. The financial statements for the year ending December 31, 2022 were not restated.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Years Ended December 31, 2023 and 2022

	Non-Hazardous									
(Actuarial Valuation Report Year)	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*
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%	0.015573%
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	$ 999,243
District's Covered-Employee Payroll	$ 181,675	$ 175,555	$ 162,411	$ 169,633	$ 185,528	$ 179,554	$ 208,314	$ 256,031	$ 332,812	$ 501,525
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%	199.24%
Percentage of the Total Pension Liability	66.80%	59.97%	55.50%	53.32%	53.54%	53.54%	51.67%	57.33%	52.42%	57.48%

Note:
This schedule will cover the ten (10) most recent fiscal years.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
Fiscal Years Ended December 31, 2023 and 2022

					Non-Hazardous					
(Actuarial Valuation Report Year)	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*
Contractually Required Pension Contribution	$ 29,088	$ 21,212	$ 19,095	$ 23,180	$ 26,151	$ 28,262	$ 39,056	$ 44,445	$ 69,286	$ 105,781
Contractually Required Pension Contribution	29,088	21,212	19,095	23,180	26,151	28,262	39,056	44,445	69,286	105,781
Pension Contribution Deficiency (Excess)	$ 0	$ 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	$ 501,525
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%	21.09%

Note:
This schedule will cover the ten (10) most recent fiscal years.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
For the Years Ended December 31, 2023 and 2022

	Non-Hazardous						
(Actuarial Valuation Report Year)	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*
District's Proportion of the Net OPEB Liability (Asset)	0.006825%	0.007826%	0.006914%	0.007898%	0.009014%	0.010997%	0.015573%
District's Proportionate Share of the Net OPEB Liability (Asset)	$ 137,206	$ 129,361	$ 116,290	$ 190,713	$ 172,569	$ 217,027	$ (21,501)
District's Covered-Employee Payroll	$ 169,633	$ 185,528	$ 179,554	$ 208,314	$ 256,031	$ 332,812	$ 501,525
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%	-4.29%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.39%	57.62%	57.62%	51.67%	62.91%	60.95%	104.23%

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 DISTRICT'S OPEB CONTRIBUTIONS
Fiscal Years Ended December 31, 2023 and 2022

	Non-Hazardous						
(Actuarial Valuation Report Year)	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*
Contractually Required Pension Contribution	$ 8,720	$ 10,032	$ 9,175	$ 9,632	$ 10,962	$ 12,683	$ 15,325
Pension Contributions in Relation to the Contractually Required Pension Contribution	8,720	10,032	9,175	9,632	10,962	12,683	15,325
Pension Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
District's Covered-Employee Payroll	$169,633	$185,528	$179,554	$208,314	$256,031	$332,812	$501,525
Pension Contributions as a Percentage of Covered-Employee Payroll	5.14%	5.41%	5.11%	4.62%	4.28%	3.81%	3.06%

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, 2023 and 2022

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.

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 rated 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.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal ALN Number	Pass-Through Entity's Identifying Number	Total Federal Expenditures
U. S. Department of Agriculture			
Direct Program			
Appalachian Regional Development Grant	23.001		$ 6,933
Total U.S. Department of Agriculture			$ 6,933
U. S. Department of Environmental Protection			
Passed-Through Kentucky Infrastructure Authority			
Drinking Water State Revolving Fund	66.468	F21-002	$ 1,764,760
Total U.S. Department of Environmental Protection			$ 1,764,760
U. S. Department of Treasury			
Passed-Through Kentucky Infrastructure Authority			
Coronavirus State and Local Fiscal Recovery Funds	21.027	21CWW292	$ 160,000
Total U.S. Department of Treasury			$ 160,000
Total of Expenditures of Federal Awards			$ 1,931,693

Note 1. Basis of Presentation

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

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

Morgan County Water District does not use the 10-percent de minimis indirect cost rate.

Note 4. Principal Balance on Loan

At December 31, 2023, the District has a principal loan balance of $1,764,760 on the federal portion of loan proceeds expended.

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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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 16, 2024.

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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001, 2023-002, 2023-003, and 2023-004 that we consider to be a material weaknesses.

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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* listed as 2023-005.

Morgan County Water District's Response to the Findings

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 schedule of findings and questioned costs. 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

July 16, 2024

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Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance

Board of Directors
Morgan County Water District
West Liberty, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-006 to be a material weakness.

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

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

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

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky

July 16, 2024

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2023

Section 1: Summary 0f Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited was prepared in accordance with GAAP: Unmodified opinion

Internal Control Over Financial Report:

Are any material weaknesses identified?	☒Yes	☐No
Are any significant deficiencies identified?	☐Yes	☒None Reported
Are any noncompliance material to financial statements noted?	☒Yes	☐No

Federal Awards

Are any material weaknesses identified?	☒Yes	☐No
Are any significant deficiencies identified?	☐Yes	☒None Reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified	
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	☐Yes	☒No

Identification of Major Programs

United States Department of Environmental Protection
Drinking Water State Revolving Fund Assistance Listing #66.468

The threshold used for distinguishing between Types A and B programs was $750,000.

Morgan County Water District was not determined to be a low-risk auditee.

FINDINGS—FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES

2023-001 The District Lacks Internal Control Over Cash Accounts

Condition:

- At December 31, 2023, the total of the five (5) unrestricted bank accounts (O&M, payroll, water revenue, emergency savings revenue, and credit card revenue), considered the operating revenue accounts and presented on the financial statements in the aggregate, was $(5,805). Two (2) of the five (5) operating revenue accounts, O&M and payroll, had negative book balances, $(21,516) and (827), respectively, at December 31, 2023.

FINDINGS—FINANCIAL STATEMENTS AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

2023-001 The District Lacks Internal Control Over Cash Accounts (Continued)

- At December 31, 2023, there was an outstanding check written on December 5, 2023 in the amount of $39,500 in the O&M account. This payment was approved by the PSC for payment from the surcharge account which is a restricted account. The funds were transferred from the surcharge account to O&M; however, the check remains outstanding in the O&M account at July 8, 2024. Per inquiry, the check was submitted for payment to the bank in December without endorsement and was returned to the company by the bank for that endorsement. An endorsed check has not been resubmitted by the company to the bank for payment. No follow-up on the outstanding check has been made by the District
- We noted checks outstanding longer than 6 months and deposits outstanding longer than the subsequent bank statement.
- We noted several bank reconciliations did not agree to the general ledger.
- We noted negative book balances for each month of the 2023 year from $(1,760) to $(48,368) in the O&M account, including one month with a negative bank balance. The board members are given a list of bank accounts and bank balances. Beginning in June 2023, bank reconciliations were provided to the board members; however, after the first presentation, the bank reconciliations were presented with a $0 beginning balance. It could not be determined whether board members were aware of the negative book balances.

Criteria:

- Good internal controls dictate that all balances, bank and book, are such that there are sufficient funds to pay any drafts written. Negative balances indicate that funds are insufficient to cover expected drafts.
- Good internal controls dictate follow-up on checks outstanding longer than six months and deposits outstanding longer than the subsequent bank statement
- Bank reconciliations are an important tool for maintaining accurate financial records.
- Good internal controls dictate accurate financial information be provided to those charged with governance (board members) to aid in making the best financial decisions.

Effect: Financial decisions could be made from misleading information.

Cause: Misleading information being made to those charged with governance.

Recommendation: We recommend the Board implement controls to ensure the proper information is presented for making financial decisions that best serve the interests of the District's customers.

District's Response and Corrective Action Plan: No response was provided.

FINDINGS—FINANCIAL STATEMENTS AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

2023-002 The District Lacks Internal Control Over Disbursements

Condition: When testing disbursements, we noted the following:

- A significant number of invoices were paid later than thirty days. There were no written arrangements with vendors for making payments provided.
- It appeared checks are written and a list presented to the Board for approval; however, the checks do not appear to clear timely. It could not be determined if the Board is aware of outstanding checks. For instance, one check written in December for $39,500 using restricted funds transferred to the O&M account did not clear timely.
- Coding was inconsistent.
- While testing disbursements, we noted several debit/charge card transactions that were reimbursed by the employee making the transaction. Credit/Debit card policies state no personal purchases are allowed with company cards and the District will seek reimbursement for any such purchases. It appears the District is following these procedures. We recommend the District make every effort to continue monitoring debit/credit card transactions. Further, reimbursement for such transactions should be netted with expense as these are neither revenue nor expense of the District.
- While testing disbursements for personal charges, we noted several charges with insufficient supporting documentation to determine whether the charges were personal or a liability of the District.
- While testing debit card charges, we noted several training expenses, i.e. hotel charges, meal charges, online training, etc., that did not appear to be approved by the board. Per the Employee Handbook provided "Employees must obtain departmental approval for attendance."

Criteria:

- Good internal controls would dictate that the information presented to those charged with governance (Board Members) should be complete, accurate, and 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.

- Good internal controls would dictate that supporting documentation maintained should be sufficient to determine that a transaction is a legitimate expense of the District.

- Good internal controls would dictate that the Board approve training, whether in person or online, taken by employees in the interest of the District.

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

FINDINGS—FINANCIAL STATEMENTS AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

2023-002 The District Lacks Internal Control Over Disbursements (Continued)

Cause: Improper presentation of financial information.

Recommendation: We recommend the District implement controls to ensure expenses are handled appropriately, timely and ensuring expenses are liabilities of the District.

District's Response and Corrective Action: No response was provided.

2023-003 The District Lacks Internal Control Over Debt

Condition: We requested a list of the debt for the District. We were provided a list of bond debt which included four (4) Rural Development bonds and one (1) KRWFC bond. We determined through reading the minutes and debt confirmations that the District also had three one-year promissory notes with a local financial institution. One (1) note was for $24,801, due in November 2023, which the District did not renew until early 2024: one (1) note was for $30,827 on which the District made a payment and renewed the balance of $28,027 in a timely manner: one (1) note was not disclosed or recorded in the general ledger. We noted the purchase of land while reading the minutes. Upon inquiry, the loan was disclosed and the auditors were able to confirm the one -year note of $127,426 with the financial institution. We also noted the District entered a two-year agreement with Gateway ADD to make payments on funds ($150,000) initially borrowed on a one-year agreement. The District also is leasing seven (7) vehicles, one (1) of which is new in the current audit year.

Auditors noted in the general ledger that $3,190,795 was recorded as "KIA Grant." Upon confirmation with Kentucky Infrastructure Authority (KIA) only $160,000 in grant proceeds were paid in the 2023 calendar year. We confirmed with KIA that the District entered an assistance agreement (loan with principal forgiveness) with KIA for an amount not to exceed $3,262,000. In the current year, the District made draws of and disbursed $3,030,795 of which $1,764,760 was confirmed by KIA as federal funds which triggered a Single Audit. (See #4.) Once all funds have been drawn and disbursed on the agreement, there will be $1,000,000 principal forgiveness.

Auditors determined the following debt was undisclosed and had to be added to the liabilities schedule:

- $127,426 one-year promissory note
- $3,030,795 KIA Assistance Agreement

Criteria: When disclosing debt service, it is vitally important that all types of debt be disclosed, whether bonds, loans, promissory notes, leases, etc.

Effect: Material misstatements could occur on the financial statements.

Cause: Failure to disclosure of debt service

Recommendation: We recommend the District implement controls over debt service, including maintenance of an up-to-date, complete list of debt service which includes all types of debt.

FINDINGS—FINANCIAL STATEMENTS AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

2023-003 The District Lacks Internal Control Over Debt (Continued)

District's Response and Corrective Action Plan: No response was provided.

2023-004 The District Lacks Internal Control Over the Schedule of Expenditures of Federal Awards And Failed To Establish Written Procedures

Condition: Before beginning the audit, inquiry was made of management about the amount of federal funds expended in the audit year ending December 31, 2023. Management indicated $160,000 in grant funds had been expended by forwarding an email from GWADD. In the course of our audit, we determined the District spent $1,764,760 in federal loan funds (see #5), along with $6,933 in Rural Development grant proceeds.

Management was unable to provide evidence of proper internal controls over expenditures of federal funds, i.e. written procedures.

Criteria:

2 CFR 200.510 (b) states in part, *"Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR200.502."

2 CFR 200.303 states in part, "The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal grant.

Effect: Failure to disclose the correct amount of federal funds expended.

Cause: Failure to implement proper internal controls.

Recommendation: We recommend the District implement proper internal controls over expenditures of federal funds, including written procedures. We also recommend the District complete a Schedule of Expenditures of Federal Awards (SEFA) in any year federal funds are expended.

District's Response and Corrective Action Plan: No response was provided.

FINDINGS—FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCE

2023-005 The District Failed to Comply With Bond Covenants

Condition: While testing bond compliance, we noted the following:

- Transfers from the revenue account to the O&M account were not made in a sufficient amount to cover monthly expenses.
- Monthly deposits were not made to the depreciation reserve account.
- Insurance proceeds of $29,012 that were not used to replace or repair assets should have been deposited into the depreciation reserve account.

Criteria: Per the Bond documents, $85 per month should be deposited into the depreciation reserve account; transfers from the revenue account should be made monthly to the O&M account to cover expenses; and insurance proceeds not used to replace or repair an asset is be deposited into the depreciation reserve account.

Effect: Noncompliance could limit the future borrowing power of the District

Cause: Failure to follow bond compliance.

Recommendation: We recommend the District follow the Rural Development bond compliance.

District's Response and Corrective Action Plan: No response was provided.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

2023-006 The District Lacks Internal Control Over the Schedule of Expenditures of Federal Awards And Failed To Establish Written Procedures

Federal Program: Assistance Listing #66.468 Drinking Water State Revolving Fund
Award Number and Years: Multiple Years
Federal Agency: U.S. Department of Environmental Protection
Pass Through Agency: Kentucky Infrastructure Authority
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment and Real Property Management, Matching, Level of Effort, Earmarking, Period of Performance, Procurement and Suspension and Debarment
Type of Finding: Compliance and Internal Control
Amount of Questioned Cost: None
Effect on Audit Opinion: None

Condition: *This finding is repeated from the financial statement section.* Before beginning the audit, inquiry was made of management about the amount of federal funds expended in the audit year ending December 31, 2023. Management indicated $160,000 in grant funds had been expended by forwarding an email from GWADD. In the course of our audit, we determined the District spent $1,764,760 in federal loan funds (see #5), along with $6,933 in Rural Development grant proceeds.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT (Continued)

2023-006 The District Lacks Internal Control Over the Schedule of Expenditures of Federal Awards And Failed To Establish Written Procedures (Continued)

Management was unable to provide evidence of proper internal controls over expenditures of federal funds, i.e. written procedures.

Criteria:

2 CFR 200.510 (b) states in part, "*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502."

2 CFR 200.303 states in part, "The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal grant.

Effect: Failure to disclose the correct amount of federal funds expended.

Cause: Failure to implement proper internal controls.

Recommendation: We recommend the District implement proper internal controls over expenditures of federal funds, including written procedures. We also recommend the District complete a Schedule of Expenditures of Federal Awards (SEFA) in any year federal funds are expended.

District's Response and Corrective Action Plan: No response was provided.

SUMMARY OF PRIOR AUDIT FINDING

Finding Number	**Prior Year Finding Title**	**Status**	**Corrective Action**
2022-001	The District Lacks Control Over Disbursements	Unresolved	See Corrective Action Plan Finding 2022-001