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December 29, 2025

Ms. Linda C. Bridwell, P.E.
Executive Director
Kentucky Public Service Commission
P.O. Box 615
Frankfort, KY 40602-0615
Email: psced@ky.gov

Re: *Mountain Water District*

Dear Ms. Bridwell:

It has come to Mountain Water District's attention that the Public Service Commission has not received a copy of the reports of the District's auditors on the District's financial statements for the years 2021 through 2024. Enclosed is a copy of each report.

Sincerely,

Stoll Keenon Ogden PLLC

Gerald E. Wuetcher

Enclosures

Cc: Tammy Olson
PSC-Filings Branch

MOUNTAIN WATER DISTRICT
PIKEVILLE, KENTUCKY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

Wallen, Puckett, & Anderson, PSC

CERTIFIED PUBLIC ACCOUNTANTS
POST OFFICE BOX 1349
PIKEVILLE, KENTUCKY 41502

MOUNTAIN WATER DISTRICT
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Wallen, Puckett, & Anderson, PSC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Mountain Water District
Pikeville, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the the business-type activities of the Mountain Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Mountain Water 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 Mountain Water District, as of December 31, 2021, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 Mountain Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–7 and 40 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mountain Water 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*, are presented for purposes of additional analysis and are 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2022, on our consideration of the Mountain 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 the Mountain 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 Mountain Water District's internal control over financial reporting and compliance.

WALLEN, PUCKETT, AND ANDERSON, P. S. C.

Wallen, Puckett and Anderson, PLLC

Certified Public Accountants
Pikeville, Kentucky

September 23, 2022

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Mountain Water District
Management Discussion and Analysis
December 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mountain Water District's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2021. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction the District's financial statements (beginning on page 9).

FINANCIAL HIGHLIGHTS

Due to this year's operations, the District's Net Position was \$70,082,067 an increase of \$3,206,905 as compared to the prior year Net Position of \$66,875,162 a decrease of \$2,974,721.

- The current year's expense total was \$12,859,782 and there was \$10,728,987 generated in fees and charges, before Capital Contributions and other changes in Net Position. In the previous year, expenses were \$13,396,417 and there was \$10,406,397 generated in fees and charges, before Capital Contributions and other changes in Net Position).

USING THIS ANNUAL REPORT

This annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenditures and Changes in Net Position (on pages 9 thru 12) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. These statements tell how these services were financed in the short term as well as what remains for future spending. Since the District is special purpose government it is able to combine the government-wide and fund financial statements into single presentations. Mountain Water District has elected to present in this format.

The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's Net Position and changes in them. You can think of the District's Net Position - the difference between assets and liabilities-as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's Net Position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's customers and the condition of District facilities, to assess the overall health of the District.

In the Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position, the District presents its activities. All of the District's basic services are reported here.

Financial Statements

The financial statements begin on page 9 and provide detailed information. All of the District's services are reported and focuses on how money flows into and out and the balances remaining at year-end that are available for spending. The District is reported using accrual accounting.

THE DISTRICT AS A WHOLE

The District's combined Net Position was increased by \$3,206,905, from \$66,875,162 to \$70,082,067. In contrast, last year Net Position decreased by \$2,974,721. Looking at the Net Position and net expenses of the District's activities, our analysis below focuses on the Net Position (Table 1) and changes in Net Position (Table 2) of the District.

Mountain Water District
Management Discussion and Analysis
December 31, 2021

Table 1 - Net Position

	<u>2021</u>	<u>2020</u>
Current and other assets	\$ 1,889,788	\$ 1,954,243
Capital assets	92,401,012	93,038,484
Other assets	3,054,255	3,490,330
Total Assets	<u>\$ 97,345,055</u>	<u>\$ 98,483,057</u>
Deferred outflows of resources	<u>\$ 1,494,155</u>	<u>\$ 2,062,584</u>
Long-term liabilities	\$ 24,335,499	\$ 30,423,488
Current liabilities	2,537,165	2,738,821
Total Liabilities	<u>\$ 26,872,664</u>	<u>\$ 33,162,309</u>
Deferred inflows of resources	<u>\$ 1,884,479</u>	<u>\$ 508,170</u>
Net position		
Invested In Capital Assets,		
Net of Debt	\$ 73,607,115	\$ 65,776,945
Restricted	3,077,271	3,030,747
Unrestricted	(6,602,319)	(1,932,530)
Total net position	<u>\$ 70,082,067</u>	<u>\$ 66,875,162</u>

The Net Position of the District increased by 4.8 percent (\$70,082,067 compared to \$66,875,162). Unrestricted Net Position—the part of Net Position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from a \$(1,932,530) at December 31, 2020 to a \$(6,602,319) at the end of this year.

Mountain Water District
Management Discussion and Analysis
December 31, 2021

TABLE 2 - Changes in Net Position

	2021	2020
Revenues		
Operating Revenue	\$ 10,728,987	\$ 10,406,397
Total revenues	<u>\$ 10,728,987</u>	<u>\$ 10,406,397</u>
Expenses		
Operating	\$ 12,859,782	\$ 13,396,417
Total expenses	<u>\$ 12,859,782</u>	<u>\$ 13,396,417</u>
Excess (deficiency) before special items	\$ (2,130,795)	\$ (2,990,020)
Non Operating Income (Expense)		
Interest	\$ 3,905	\$ 8,542
Sale of Assets	5,823	0
Interest Paid	(356,314)	(441,591)
Government and State Grants	5,554,096	359,743
Customers through Tap-on Fees	130,190	88,605
Increase (decrease) in Net Position	<u>\$ 3,206,905</u>	<u>\$ (2,974,721)</u>

The District's total revenues (excluding special items) increased by 3.0999 percent or \$322,590. The total cost of all programs and services decreased by \$107,648, or 4.006 percent.

Budgetary Highlights

The actual charges to operating expenses were \$126,920 below the final budget amounts before depreciation.

Resources available were \$124,161 below the final budget amount.

CAPITAL ASSET

Capital Assets

At the end of December 31, 2021, the District had \$91,415,641 invested in a broad range of capital assets, including land, water treatment facilities, waste water treatment facilities, supply and pumping and other required equipment (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$6,908,511, or 0.0818 percent, over last year.

Mountain Water District
Management Discussion and Analysis
December 31, 2021

Table 4 - Capital Assets at Year-End (Net of Depreciation)

	<u>2021</u>	<u>2020</u>
Land and Land Rights	\$ 578,640	\$ 578,640
Supply & Pumping	5,752,161	4,384,665
Water Treatment Equipment	10,088,258	18,433,906
Transmission & Distribution	96,651,190	96,988,619
General Plant	6,617,049	4,176,767
Sewer Utility Plant	45,275,233	29,368,099
Sewer General Plant	784,611	725,012
Less: Accumulated Depreciation	<u>(74,331,501)</u>	<u>(70,148,578)</u>
	<u><u>\$ 91,415,641</u></u>	<u><u>\$ 84,507,130</u></u>

The District's fiscal-year 2021-2022 capital budget calls for it to spend another \$1,410,037 for capital projects, principally for the completion of the Phelps Sewer System, new lines, and replacement of lines. The District has plans to issue no additional debt to finance these projects. Rather, we will use grant and loan proceeds from the issued this year and resources on hand in the District's standard operating account. More detailed information about the District's capital assets is presented in Note 8 to the financial statements.

DEBT REFINANCING

The District refinanced \$5,992,999 of debt in 2022 that resulted in a decreased interest of \$475,270.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's appointed officials considered many factors when setting the fiscal-year 2022 budget, and fees that will be charged.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Carrie Hatfield
 Chief Financial Officer
 Post Office Box 3157
 Pikeville, Kentucky 41502-3157
 Phone: (606) 631-9162
 Email: chatfield@mtwater.org

BASIC FINANCIAL STATEMENTS

MOUNTAIN WATER DISTRICT

STATEMENT OF NET POSITION

December 31, 2021

ASSETS

Current Assets

Cash and Cash Equivalent	\$ 369,752
Accounts Receivable	
(Net of Allowances for Bad Debts of \$37,000)	1,137,957
Inventory	382,079
Total Current Assets	<u>\$ 1,889,788</u>

Non Current Assets

Restricted Cash

Cash-Depreciation Reserve	\$ 861,966
Cash-Construction	186,317
Cash-Customer Deposits	410,014
Cash-Recycling Account	2,626
Cash-Operation and Maintenance Reserve	410,661
Cash-Wastewater Operation and Maintenance Reserve	877,346
Cash-Sinking Fund	300,967
Total Restricted Cash	<u>\$ 3,049,897</u>

Capital Assets

Land and Land Rights	\$ 578,640
Supply & Pumping	5,752,161
Water Treatment Equipment	10,088,258
Transmission & Distribution	96,651,190
General Plant	6,617,049
Sewer Utility Plant	45,275,233
Sewer General Plant	784,611
Total Capital Assets	<u>\$ 165,747,142</u>
Less: Accumulated Depreciation	(74,331,501)
Net Capital Assets	<u>\$ 91,415,641</u>

Construction in Progress

\$ 985,371

Other Assets

Deposit on leased Vehicles	\$ 625
FEMA receivable	3,733
Total Other Assets	<u>\$ 4,358</u>
Total Non Current Assets	<u>\$ 95,455,267</u>
Total Assets	<u>\$ 97,345,055</u>

Deferred Outflows of Resources

Deferred Pension Contributions	\$ 641,252
Deferred OPEB	852,903
Total Deferred Outflows of Resources	<u>\$ 1,494,155</u>

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

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MOUNTAIN WATER DISTRICT

STATEMENT OF NET POSITION
December 31, 2021

LIABILITIES AND NET ASSETS

Liabilities

Current Liabilities

Accounts Payable Trade	\$ 297,556
Accrued Payroll Taxes	125,235
Accrued Interest	88,001
Customer Deposits	438,742
Line of Credit	303,378
Bonds Payable, Current	136,000
Notes Payable and Capital Leases, Current	1,148,253
Total Current Liabilities	<u>\$ 2,537,165</u>

Long-Term Liabilities

Bonds Payable, Long-Term	\$ 9,931,000
Net Pension Liability	5,296,364
Net OPEB Liability	1,589,970
Notes Payable and Capital Leases, Long-Term	7,918,761
Advances For Construction	944,136
Less - Deferred Financing Cost	(60,479)
Less - Bonds Payable, Current	(136,000)
Less - Notes Payable and Capital Leases , Current	(1,148,253)
Total Long-Term Liabilities	<u>\$ 24,335,499</u>
Total Liabilities	<u>\$ 26,872,664</u>

Deferred Inflows of Resources

Deferred Pension Investment Earnings	\$ 1,043,365
Deferred OPEB	841,114
Total Deferred Inflows of Resources	<u>\$ 1,884,479</u>

Net Position

Invested in capital Assets, net of related debt	\$ 73,607,115
Restricted for:	
Construction	186,317
Depreciation, Maintenance and Replacement - Capital Assets	2,179,973
Customer Deposits	410,014
Sinking Fund	300,967
Unrestricted (Deficit)	(6,602,319)
Total Net Position	<u>\$ 70,082,067</u>

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

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MOUNTAIN WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Year Ended December 31, 2021

OPERATING REVENUES

Metered Sales-Residential	\$ 7,026,179
Metered Sales-Commercial	565,100
Sewage Revenue	1,992,882
Metered Sales-Multi-Family	304,496
Metered Sales-Public Authorities	389,277
Other Water Service Revenue	207,619
Service Connection Fees	182,163
Metered Sales-Industrial	59,746
Fire Protection Revenue	1,525
TOTAL OPERATING REVENUE	\$ 10,728,987

OPERATING EXPENSES

Depreciation	\$ 4,197,559
Water Purchased	1,170,994
Material and Supplies	579,090
Wages	2,339,537
Contract Service-Accounting	77,590
Education, Dues and Meetings	37,812
Employee Benefits	448,440
Contract Service-Legal Engineering	245,482
Easements	7,316
PSC Tax Assessment	20,725
Payroll Taxes	155,925
Retirement Expense	815,482
Settlement Fees	27,647
Sewage fees	78,284
Repairs and Maintenance	929,993
Utilities	1,449,102
Telephone Expense	56,026
Bad debts	60,361
Advertising	3,841
Rent	9,000
Insurance	146,136
Amortization Expense	3,440
Total Operating Expenses	\$ 12,859,782
Operating Income (Loss)	\$ (2,130,795)

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

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MOUNTAIN WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Year Ended December 31, 2021

OPERATING REVENUES

NONOPERATING REVENUES (EXPENSES)

Gain On Sale of Assets	\$ 5,823
Interest Income	3,905
Interest Expense	(356,314)
Total Nonoperating Revenues (Expenses)	\$ (346,586)
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION	<u>\$ (2,477,381)</u>

CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION

Government and State Grants	\$ 5,554,096
Customers through Tap-on Fees	130,190
CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION	<u>\$ 5,684,286</u>
CHANGE IN NET POSITION	\$ 3,206,905

NET POSITION - BEGINNING OF YEAR 66,875,162

NET POSITION - END OF YEAR \$ 70,082,067

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

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MOUNTAIN WATER DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from:

Receipts from Customers	\$ 10,816,805
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Cash Paid to/for:

Employees	(3,463,543)
Water Purchased	(1,170,994)
Payments to Suppliers	(3,738,127)
Net Cash Provided (Used) by Operating Activities	\$ 2,444,141

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest Income	\$ 3,905
Net Cash Provided (Used) by Investing Activities	\$ 3,905

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds From Tap-On Fees	\$ 130,190
Payments for rate increase Government Grants	5,554,096
Advances for Construction	(3,604,954)
Purchases of Equipment	(11,107,739)
Construction in Progress	7,545,983
Loan and LOC Proceeds	345,742
Principal Payments	(1,359,871)
Interest Payments	(486,150)
Proceeds from Sale of Vehicles	5,823
Net Cash (Used) by Capital and Related Financing Activities	\$ (2,976,880)

CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES

Customer Deposits	\$ 70,606
OTHER	(338)
Net Cash Provided(Used) by Non Capital Financing Activities	\$ 70,268

Net Increase (Decrease) in Cash and Cash Equivalents	\$ (458,566)
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Cash and Cash Equivalents - Beginning	3,878,215
Cash and Cash Equivalents - Ending	\$ 3,419,649

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

MOUNTAIN WATER DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2021

Reconciliation of Operating Income (Loss)

To Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$ (2,130,795)
Adjustments to Reconcile Operating Income to Net Cash	
Operating Activities:	
Depreciation	4,197,559
Amortization	3,440
Change in Assets and Liabilities:	
(Increase) Decrease	
Customer Accounts Receivable	87,818
Inventory	(102,603)
Prepaid Expenses	56,749
Deferred Outflows of Resources	
Deferred Pension Contributions	475,721
Deferred OPEB	92,708
Increase (Decrease) in:	
Accounts Payable	36,132
Accrued Payroll Taxes	38,810
Deferred Inflows of Resources	
Deferred Pension Investment Earnings	923,872
Deferred OPEB	452,437
Pension liability	(1,225,137)
OPEB liability	(462,570)
Net Cash provided (Used) by Operating Activities	<u><u>\$ 2,444,141</u></u>

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

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MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mountain Water District (District) conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the more significant policies:

A. Organization

Mountain Water District is a political subdivision of the Pike County Fiscal Court, organized under chapter 74 of the Kentucky Revised Statutes. It was formed from a merger of four existing water districts Marrowbone Water District, Shelby Valley Water District, Pond Creek Water District, and John's Creek Water District on June 30, 1986 and at that time assumed all assets and liabilities of the existing water districts.

The territorial limits of Mountain Water District, set by the Pike County Judge/Executive on January 20, 1987 are all of Pike County except; (1) the territory of that portion of the Sandy Valley Water District located in Pike County, (2) the water services area of the City of Pikeville, and (3) special financing relationships.

B. Reporting Entity

The District is the basic level of government which has financial accountability and control over all activities related to the District. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncement. The Board of Commissioners have decision making authority, the power to designate management, the ability to influence operations, and the primary accountability for fiscal matters. There are no component units as defined in GASB Statement 14 and 61 which are included in the District's reporting entity.

C. Basis of Presentation-Funds Accounting

The accounts of the District are organized on the basis of funds each of which is considered a separate accounting entity. The operation of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Proprietary Funds/Enterprise Funds

Proprietary funds and Enterprise funds (are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for accountability capital maintenance, public policy, management control or other purposes.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when obligations are incurred.

F. Encumbrance Accounting

The District does not use encumbrance accounting. Since effective budgetary control and accountability and cash planning and control can be facilitated without encumbrance accounting, this is not considered departure from generally accepted accounting principles. There were no unperformed contracts in process at year end which otherwise might have resulted in the need to encumber estimated expenditures.

G. Customer Accounts Receivable

Customer accounts receivable are stated at face value, less allowance for uncollectible accounts. Changes in the allowance are charged to operating expenses.

H. Capital Assets

Capital Assets, which included property, plant and equipment, are reported in the fund financial statements at historical cost.

Depreciation is recorded as an allocated expense in the Statement of Revenues, Expenses and Changes in Fund Net Position with accumulated depreciation reflected in the Statement of Financial Position. Depreciation is computed using straight-line method over the estimated useful lives of the related assets. Estimated useful lives range from 3 to 40 years.

Capital additions improvements and major renewals are capitalized, whereas maintenance, repairs and minor renewals are charged to expenses when they are incurred. In the case of disposals, the assets and related reserves are removed from the accounts and the net amount less any proceeds from disposals, is charged or credited to revenues. Most construction in progress is not capitalized until water runs through the lines.

I. Bad Debts

Bad debts are recognized using the reserve method of accounting for uncollectible accounts.

J. Inventory

Inventory is valued at lower of cost or net realizable value on a First-In, First-Out Basis. December 31, 2021 inventory balance was \$382,079.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Cash and Cash Equivalents

For purpose of the statement of cash flows, the District considered all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

As of December 31, 2021, cash and cash equivalents restricted cash consisted of the following:

Petty Cash	\$ 320
Cash in Bank	369,432
Restricted Cash	<u>3,049,897</u>
Total	<u>\$ 3,485,972</u>

L. Investment Policy

The District's policy is to invest available funds in the following:

- 1) Obligations of the U.S. and its agencies and Instrumentalities.
- 2) Obligations and contract for future delivery of purchases of obligations backed by the full faith and credit of the U.S. or a U.S. Government agency, including but not limited to"
 - a) United States Treasury
 - b) Export-Import Bank of the United States.
 - c) USDA-Rural Development
 - d) Government National Mortgage Corporation, and
 - e) Merchant Marine Bonds
- 3) Obligations of any corporation of the U.S. Government.
- 4) Certificate of Deposit issued by other interest-bearing accounts of any bank or savings and loan institutions which are issued by the Federal Deposit Insurance Corporation or similar entity of which are collateralized, to the extent uninsured, by any obligation permitted by section 41.240(4) of the Kentucky revised statutes.
- 5) Uncollateralized certificates of deposits issued by any bank or savings and loans institution rated in one of the three highest categories by a national recognized rating agency.
- 6) Bankers' Acceptance for banks rated in one of three highest categories by a nationally recognized rating agency.
- 7) Commercial paper rated in the highest categories by a nationally recognized rated agency.
- 8) Bonds or certified of indebtedness of the Commonwealth of Kentucky and of its agencies or instrumentalities.
- 9) Securities issued by a state or local government, or any instrumentality or agency thereof, in the U.S., and rated in one the three highest categories by a nationally recognized rating agency.
- 10) Shares of mutual funds, which contain certain characteristics.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Investment Policy (Continued)

Limits on investments transactions are limited in amount in one category to 20% of the total funds invested and no investment shall be purchased on a margin basis.

The District is currently invested only in interest bearing accounts of local federal insured financial institutions, including interest bearing checking accounts and certificates.

M. Leave Policy-Vacation/Leave Policy-Sick Leave

The District allows full-time employees to accrue vacation leave as follows: (a) ten (10) days during the first year of employment. Employees can accrue vacation time up to a maximum of twice the annual entitlement. If an accrual of twice the annual vacation entitlement is attained, additional vacation days do not accrue. Upon termination of employment, an employee shall be paid for all accrued vacation leave.

Employees shall accrue sick leave at the rate of ten (10) days per year. Employees can accrue sick leave up to a maximum of 160 hours, after the maximum is obtained no additional sick leave is accrued. Upon termination, resignation, retirement or voluntary leave, the employee shall not be reimbursed for the accrued leave hours.

As of December 31, 2021 the accrued liability for vacation leave was -0-.

N. Advertising

The District expenses advertising costs as incurred. Total advertising costs charged to expense for the years ended December 31, 2021 was \$3,841.

O. Net Position Classifications

In the fund financial statements, Net Position is classified as net assets and displayed in three components.

- Invested in capital assets, net of related debt-Consist of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets-Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets-All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

P. Accounting Policy for Loan Cost

Loan costs are amortized on the straight-line method over the remaining life of the loan and a direct deduction from the carrying amount of the debt liability. Amortization for 2021 was \$3,440 and charged to amortization expense. Original Deferred Financial Cost was \$92,316.

NOTE 2. CUSTOMER DEPOSIT FUND

Deposits required from customers when they sign up for the water service are deposited into the customer deposit escrow account. When services are terminated or a customer has paid in a timely fashion, a refund of the deposit plus interest is given after a year of water service. Customer deposits as of December 31, 2021 were \$438,742 and \$410,661 are currently held in escrow.

NOTE 3. COMMITMENTS AND CONTINGENCIES

The District has been committed to several construction projects that have not been either started or completed as of the date of this report.

NOTE 4. RECLASSIFICATIONS

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform with presentation in the current year financial statements.

NOTE 5. SUBSEQUENT EVENTS

In January 2022 the District refinanced bonds in the amount of \$5,993,000 with a new loan of \$5,580,000 at a rate of 5.2% and a preliminary discount of \$478,269 to effectuate an actual interest rate of 2.52%

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 23, 2022 the date the financial statements were available to be issued.

As a result of the COVID-19 Coronavirus, economic uncertainties have arisen which could negatively impact the Net Position. Other financial impact could occur, however; such potential impact is unknown at this time.

NOTE 6. RESTRICTED ASSETS AND RESERVE NET POSITION

Each of the proprietary funds has a portion of its net assets restricted in connection with assets restricted in uses, such as bond interest and redemption, depreciation, and customer deposits.

Restricted net assets includes excess of restricted cash over liabilities payable from restricted cash. 19

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 7. DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2021, the carrying amount of the District's deposits with financial institutions was \$3,423,063 and the bank balance, per statements, was \$3,716,453. The Bank balance is collateralized as follows:

Amount insured by FDIC	\$ 800,975
Amount collateralized by securities held by third party trust company in the District's name	2,915,477
Total Bank Balance	<u>\$ 3,716,452</u>

Pledged collateral was obtained for amounts up to \$3,223,297 for money on deposit at Community Trust Bank in the name of the District. Pledged collateral was obtained for accounts up to \$702,302 for money on deposit with BB&T and Community Trust Bank in the name of the District.

NOTE 8. CONSTRUCTION FUNDS

The District has several construction accounts used for the water projects. These are as follows:

	<u>2021</u>
Big Creek Sewer Coal Settlement	\$ 5,401
John Creek Project	3,333
District Wide Tap Fees	47693
Misc. Line Extensions	4900
MWD Special Projects	9
Elk Creek Project	5,372
Various Short Line Extensions	91
Long Fork Virgie Sewer Project	90
Belfry Pond Sewer Project	30785
Pike County Fiscal Court Projects	81458
Repair and Maintenance Reimbursement	3568
Phelps Upgrade	3517
Various Misc. Projects	100
Total Construction Funds	<u>\$ 186,317</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 9. ADVANCES FOR CONSTRUCTION

	<u>2021</u>
<u>Water Projects</u>	
In House Projects	\$ 0
Booster Pump	88,108
 <u>Sewer Projects</u>	
Phelps Waste Water: Kentucky Infrastructure Authority	717,995
Henry Clay Sewer Projects:	
COE Section 531	45391
LGEDF Funds	92642
Total Advances for Construction	<u>\$ 944,136</u>

MOUNTAIN WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 10 CONSTRUCTON IN PROGRESS

Mountain Water District has overseen several construction projects. As of December 31, 2021 the following projects were in progress.

	1/1/2021	Additions	Deductions	12/31/2021
<u>Water Projects</u>				
FEMA Mitigation Project	\$ 852,599	\$ 47,789	\$ 900,388	\$ 0
Radio Read	0	491,623	463,209	28,414
Water tap	0	107,295	107,295	0
Tank Rehab	0	195,109	195,109	0
Various In House Projects	78,885	3,968	0	82,853
Total	<u>\$ 931,484</u>	<u>\$ 845,784</u>	<u>\$ 1,666,001</u>	<u>\$ 111,267</u>
<u>Sewer Projects</u>				
Phelps/Buskirk	\$ 189,838	\$ 545,558	\$ 0	\$ 735,396
Henry Clay	138,708	79,936	79,936	138,708
Belfry Pond Sewer	7,271,324	1,286,226	8,557,550	0
Total accumulated depreciation	<u>\$ 7,599,870</u>	<u>\$ 1,911,720</u>	<u>\$ 8,637,486</u>	<u>\$ 874,104</u>
Capital Assets-net	<u><u>\$ 8,531,354</u></u>			<u><u>\$ 985,371</u></u>

MOUNTAIN WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021

NOTE 11. CAPITAL ASSETS

The following is a summary of changes in fixed asset:

	1/1/2021	Additions	Deductions	12/31/2021
Non Depreciable				
Land and Land Rights	\$ 578,640	\$ 0	\$ 0	\$ 578,640
Total Non Depreciable	\$ 578,640	\$ 0	\$ 0	\$ 578,640
Depreciable				
Supply & Pumping	\$ 4,557,317	\$ 1,194,844	\$ 0	\$ 5,752,161
Water Treatment Equipment	10,088,258	0	0	10,088,258
Transmission & Distribution	96,090,493	577,192	16,495	96,651,190
General Plant	6,198,682	418,367	0	6,617,049
Sewer Utility Plant	36,505,773	8,769,460	0	45,275,233
Sewer General Plant	636,735	147,876	0	784,611
Total Depreciable	\$ 154,077,258	\$ 11,107,739	\$ 16,495	\$ 165,168,502
Total at historical cost	\$ 154,655,898	\$ 11,107,739	\$ 16,495	\$ 165,747,142
Less: Accumulated depreciation				
Supply & Pumping	\$ 2,397,586	\$ 100,329	\$ 0	\$ 2,497,915
Water Treatment Equipment	3,356,314	287,088	0	3,643,402
Transmission & Distribution	46,498,804	2,377,725	16,495	48,860,034
General Plant	4,845,688	348,943	0	5,194,631
Sewer Utility Plant	12,788,177	1,058,831	0	13,847,008
Sewer General Plant	263,868	24,643	0	288,511
Total accumulated depreciation	\$ 70,150,437	\$ 4,197,559	\$ 16,495	\$ 74,331,501
Capital Assets-net	\$ 84,505,461			\$ 91,415,641

Depreciation expense was \$4,197,559 for the year ended December 31, 2021.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 12 LONG-TERM DEBT

The following is a summary of bonds, notes payable and capital leases of the District for the year ended December 31, 2021.

Changes In Long-Term Debt

Description	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds	\$ 10,224,000	\$ 0	\$ 293,000	\$ 9,931,000
Total Notes Payable and Capital Leases	8,503,221	345,742	930,201	7,918,762
	\$ 18,727,221	\$ 345,742	\$ 1,223,201	\$ 17,849,762

Maturities of Long-Term Debt

YEAR	Bonds		
	Principle	Interest	Total
2022	\$ 217,300	\$ 214,113	\$ 431,413
2023	224,700	240,226	464,926
2024	230,100	234,158	464,258
2025	236,000	227,886	463,886
2026	242,500	221,451	463,951
2027	1,317,500	1,002,423	2,319,923
2032	1,520,200	824,128	2,344,328
2037	1,755,300	594,784	2,350,084
2042	1,425,100	315,346	1,740,446
2047	994,600	194,238	1,188,838
2052	1,079,200	110,028	1,189,228
2057	688,500	22,664	711,164
	\$ 9,931,000	\$ 4,201,443	\$ 14,132,443

YEAR	Notes Payable		
	Principle	Inter	Interest
2022	\$ 929,195	\$ 117,189	\$ 1,046,384
2023	901,431	105,863	1,007,294
2024	598,616	95,216	693,831
2025	510,890	85,305	596,194
2026	450,949	77,031	527,980
2027	2,134,141	274,035	2,408,176
2032	1,740,046	118,669	1,858,715
2037	653,496	20,813	674,309
	\$ 7,918,762	\$ 894,121	\$ 8,812,883

MOUNTAIN WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021

NOTE 13 BONDS

Shelby Waste Water Project Fund \$ 565,000

The 4.125% sewer system revenue bonds issued July 22, 2005 in the original amount of \$740,000 are payable to USDA-Rural Development to the year 2045. The bonds are secured by a statutory mortgage lien on the utility plant service and a pledge of all water revenues from the system.

Phelps Waste Water Project Bond 316,000

The 4.5% sewer system revenue bonds issued October 23, 2003 in the original amount of \$426,000 are payable to USDA-Rural Development to the year 2043. The bonds are secured by a statutory mortgage lien on the utility plant in service and a pledge of all water revenues from the system.

Fedscreek Project 537,000

The 3.5% revenue bonds issued July 2002 in the original amount of \$800,000 are payable to USDA - Rural Development to the year 2035. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and a pledge of all water revenues from the system.

Johns Creek 1,293,000

The 4.125% revenue bonds issued 2005 in the original amount of \$1,650,000 are payable to USDA-Rural Development to the year 2027. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and a pledge of all water revenues from the system.

Radio Read Project 3,033,000

The 1.5% interest payments in January and July revenue bonds issued 2020 in the original amount of \$3,150,000 are payable to USDA-Rural Development to the year 2061. The bonds are secured by a secondary statutory mortgage lien on the Radio read Equipment and a pledge of all water revenues from the system.

Belfry 3,653,000

The 1.73% revenue bonds issued 2020 in the original amount of \$3,653,000 are payable to USDA-Rural Development to the year 2060. The bonds are secured by a secondary statutory mortgage lien on the Belfry project and a pledge of all water revenues from the system.

Russell Fork Water Plant Project 534,000

The 4.5% revenue bonds issued April 2009 in the original amount of \$650,000 are payable to USDA - Rural Development to the year 2047. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and a pledge of all water revenue from the system.

Total bonds	\$ 9,931,000
Less current portion	(217,300)
Long Term Bonds Payable	<u><u>\$ 9,713,700</u></u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 14 NOTES PAYABLE AND CAPITAL LEASES

Kentucky Rural Water Finance Corporation

The 3.14% note issued August 2012 (120) the original amount of \$6,270,000, payable in monthly installments, with payments through August 2039, secured by water revenues from the system. \$ 3,285,000

Kentucky Infrastructure Authority-Multi-Area

The 2.9% note issued June 1994 in the original Amount of \$5,165,093, payable in semi-annual Installments of \$129,479, with payments through the year 2023, secured by water revenues from the system. 499,674

Kentucky Infrastructure Authority-Indian Creek

The 3% note issued June 1994 in the original amount of \$377,760, payable in semi-annual installments of \$8,577, with payments though the year 2023, secured by water revenue from the system. 33,059

Kentucky Infrastructure Authority-F01-07

The 1.8% note issued January 2002 in the original amount of \$1,197,072 payable in semi-annual of \$35,769, with payments through the year 2024 secured by water revenues from the system. 174,117

Kentucky Infrastructure Authority A03-06

The 1% note issued June 2004 in the original Amount of \$226,776 payable in semi-annual Installments of \$6,846 with payments through the year 2023, secured by water revenues from the system. 30,106

Kentucky Infrastructure Authority A209-32

The 1% note issued January 2010 in the original amount of \$750,000 with \$390,750 in principle forgiveness, payable in semi-annual installments of \$5,212, with payments through the year 2031, secured by water revenues from the system. 183,551

Kentucky Infrastructure Authority-Multi-Area

The .75% note issued June 2019 in the original Amount of \$3,419,563, payable in semi-annual Installments of \$92,262, with payments through the year 2038, secured by water revenues from the system. 2,989,166

US Bank

Loan to finance Big Fork Project, original balance \$272,145 at 3.1% interest; payments are \$4,153 beginning June 26, 2016 for 24 months, maturing December 2021 17,912

Community Trust Bank

A lease purchase agreement, original balance \$52,797; at 4.567% interest; secured by 2 vehicles; payments are \$1,192 for 48 months maturing October 2022. 12,048

Community Trust Bank

A lease purchase agreement, original balance \$24,844; at 3.99% interest; secured by a vehicle; payments are \$561 for 48 months and a final maturing October 2024. 15,971

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 14 NOTES PAYABLE AND CAPITAL LEASES

Community Trust Bank

A lease purchase agreement, original balance \$92,577; at 3.0% interest; secured by a Excavator; payments are \$3,959 for 24 months maturing September 2020. 0

Community Trust Bank

A lease purchase agreement, original balance \$24,092; at 4.5% interest; secured by a vehicle; payments are \$550 for 24 months and a final balloon payment of \$12,596 maturing March 2021. 0

US BANK

A lease purchase agreement, original balance \$33,789; at 3.853% interest; secured by a vehicle; payments are \$761 for 28 months, maturing 2021. 0

Community Trust Bank

A lease purchase agreement, original balance \$53,433; at 3.25% interest; secured by a vehicle; payments are \$1,189 for 48 months maturing in October 2024. 36,261

Kentucky Infrastructure Authority A16-079

The .75% note issued August 2018 in the original Amount of \$300,000, payable in semi-annual Installments of \$7,408 with payments through the year 2037, secured by water revenues from the system. 243,050

Community Trust Bank

A purchase agreement, original balance \$23,799 at 4.054% interest, secured by vehicle; payments are \$598 for 48 months, maturing May 2022. 2,031

Community Trust Bank

A purchase agreement, original balance \$22,042 at 4.054% interest, secured by vehicle; payments are \$498 for 48 months, maturing March 2022. 1,050

Community Trust Bank

A purchase agreement, original balance \$47,740 at 4.5% interest, secured by vehicle; payments are \$1090 for 24 months, Balloon Pmt. on March 2021. 0

Community Trust Bank

A lease purchase agreement, original balance \$33,234; at 3.25% interest; secured by a vehicle; payments are \$739 for 48 months maturing in Oct 2024. 24,636

Community Trust Bank

A lease purchase agreement, original balance \$33,285; at 3.25% interest; secured by a vehicle; payments are \$650 for 48 months maturing in Oct 2024. 24,636

Community Trust Bank

A lease purchase agreement, original balance \$33,234; at 3.25% interest; secured by a vehicle; payments are \$739 for 48 months maturing in Oct 2024. 24,636

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 14 NOTES PAYABLE AND CAPITAL LEASES

Community Trust Bank

A lease purchase agreement, original balance \$24,879; at 4.053% interest; secured by a vehicle; Payments are \$560 for 48 months maturing May 2022. 2,190

Community Trust Bank

A purchase agreement, original balance \$39,347 at 3.050% interest, secured by vehicle; payments are \$871.79 for 48 months, maturing May 2025. 33,905

Community Trust Bank

A purchase agreement, original balance \$30,021 at 3.043% interest, secured by vehicle; payments are \$665.07 for 48 months, maturing October 2025. 28,842

Community Trust Bank

A purchase agreement, original balance \$29,711 at 3.043% interest, secured by vehicle; payments are \$658.20 for 48 months, maturing October 2025. 28,544

Community Trust Bank

A purchase agreement, original balance \$58,892 at 3.041% interest, secured by vehicle; payments are \$1,304.60 for 48 months, maturing November 2025. 57,713

Community Trust Bank

A purchase agreement, original balance \$30,021 at 3.043% interest, secured by vehicle; payments are \$665.07 for 48 months, maturing October 2025. 28,222

Community Trust Bank

A purchase agreement, original balance \$51,500 at 3.000% interest, secured by vehicle; payments are \$1,140.85 for 48 months, maturing November 2025. 50,488

Community Trust Bank

A purchase agreement, original balance \$76,250 at 3.000% interest, secured by vehicle; payments are \$1,689.12 for 48 months, maturing November 2025. 74,752

Takeuchi

A purchase agreement, original balance \$30,000 at 4.720% interest, secured by Skid Loader; payments are \$1312.42 for 24 months, maturing February 2023. 16,601

Total Notes Payable and Capital Leases

\$ 7,918,161

Less current portion

(929,195)

Total Long-term Portion

\$ 6,988,966

MOUNTAIN WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021

NOTE 15. RESTRICTED ASSETS AND RESERVE NET POSITION

As of December 31, 2021 restricted cash were as follows:

	2021
Depreciation Reserve	\$ 861,966
Sinking Fund	300,967
Customer Deposit Escrow Account	410,014
Operation & Maintenance reserve	410,661
Waste Water O & M Reserve	877,346
Recycling Account	2,626
Construction Account	186,317
Total Restricted Cash	<u>\$ 3,485,972</u>

The District is required by debt covenants to pay into and maintain a Depreciation Reserve Fund, a Repair and Maintenance Fund and Operation and Maintenance Fund. These Amounts may be used for extraordinary maintenance expenses related to the project or for costs of replacing worn obsolete portions of the project. If Amounts are withdrawn from said funds, the District must make required periodic deposits until the required balance is reinstated.

	Maximum Required Balance	Required Balance at 12/31/21	Actual Balance At 12/31/21
Depreciation Reserve Funds	\$ 852,060	\$ 852,060	\$ 861,966
Repairs and Maintenance Funds	1,296,794	882,868	1,288,007
Total	<u>\$ 1,734,928</u>	<u>\$ 2,068,619</u>	

The Repair and Maintenance Funds required by Kentucky Infrastructure Authority (KIA) loan agreements are fully funded.

The Depreciation Reserve Funds Required by USDA-Rural Development (RD) loan requirements are fully funded.

The USDA-Rural Development (RD) loan agreements also include a requirement for an Operation and Maintenance Fund. The funding of this reserve is secondary to the Depreciation Reserve Funds. Mountain Water's management stated during the field work that there is verbal agreement to transfer \$6,000 monthly O & M reserve to Rural Development Reserves until equal to 6 months revenue. These payments were transferred during 2021.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 16 – RETIREMENT PLAN

KENTUCKY RETIREMENT SYSTEM
County Employees Retirement System (CERS)

- Plan description:* Substantially all full-time classified employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 17.06% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At December 31, 2021, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2021. An expected total pension liability as of June 30, 2021 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2021. At June 30, 2021, the District's proportion was .083070%.

For the year ended December 31, 2021, the District recognized pension expense of \$5,296,364. At December 31, 2021, the District reported deferred outflows of resources for District contributions subsequent to the measurement date and deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of:

Deferred Outflows of Resources for:

Liability Experience	\$ 60,819
Changes of Assumptions	71,084
Investment Experience	205,464
Changes in Proportion & Differences Between Employer Contributions & Proportionate Share of Contributions	38,319
District contributions subsequent to Measurement Date	<u>266,447</u>
	\$ 642,133

Deferred Inflows of Resources for:

Liability Experience	\$ 51,405
Assumption Changes	0
Investment Experience	911,380
Changes in Proportion & Differences Between Employer Contributions & Proportionate Share of Contributions	80,579
	\$ 1,043,364

MOUNTAIN WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2021

NOTE 16 – RETIREMENT PLAN (Continued)

KENTUCKY RETIREMENT SYSTEM
County Employees Retirement System (CERS) (Continued)

District contributions subsequent to the measurement date of \$266,477 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to CERS will be recognized in pension expense as follows:

Year	Amount
2022	\$ 186,620
2023	(205,310)
2024	(161,487)
2025	(221,054)
2026	0
	<u>\$ (401,231)</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2021. The financial reporting actuarial valuation as of June 30, 2021, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Amortization Period	30 years, closed <i>Gains/losses occurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.0% for CERS non-hazardous and Hazardous, and 0.0% for KERS non-hazardous and hazardous
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service for CERS Nonhazardous; 3.55% to 19.05%, varies by service for CERS Hazardous; 3.30% to 15.30%, varies by service, for KERS Nonhazardous; 3.55% to 20.05% varies, by service for KERS Hazardous
Investment Rate of Return	6.25% for CERS Non-hazardous, and hazardous, and KERS Hazardous, 5.25% for KERS Non-hazardous
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS Nonhazardous and Hazardous

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

Long-Term Expected Investment 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 rates 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 is summarized in the table below. The current long-term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous plan.

MOUNTAIN WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2021

NOTE 16 – RETIREMENT PLAN (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity		
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies		
Real Estate	10.00%	5.30%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Total	100.00%	

Discount Rate: The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows 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 does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2021, is based on the June 30, 2021, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. 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.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 16 – RETIREMENT PLAN (Continued)

KENTUCKY RETIREMENT SYSTEM
County Employees Retirement System (CERS)(Continued)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 %, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$6,792,838	\$5,296,364	\$4,058,067

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which publicly available at <https://kyret.ky.gov>.

Payables to the pension plan: At December 31, 2021 the District had payables to CERS in the amount of \$0 for June's covered payroll with contributions required to be paid in July.

MOUNTAIN WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 17 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2021. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2021, the District's proportion for the nonhazardous was .083051%.

OPEB Liability: For the period ending December 31, 2021, the District reported a liability of \$1,589,970 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined.

For the year ended December 31, 2021, the District recognized OPEB expense of \$232,459 (this is from tables for pension plan year ending 06/30/21, for nonhazardous in total. The District also reported deferred outflows of resources and deferred inflows of resources related to pensions as the following:

	Deferred Outflows	Deferred Inflows
Liability Experience	\$ 250,023	\$ 474,712
Assumption Changes	421,531	1,478
Investment Experience	80,107	328,836
Change in Proportion & Differences Between Employer Contribution & Proportionate Share of Plan		
Contributions	90,168	36,088
District Contributions Subsequent to the Measurement Date	11,074	0
	<u>\$ 852,903</u>	<u>\$ 841,114</u>

The District's deferred outflows of resources of \$11,074 related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the year ending December 31, 2021. Other amounts reported as deferred outflows and inflows of resources as of December 31, 2021 will be recognized into OPEB expense (benefit) as follows:

Year Ending	
2022	\$ 77,972
2023	29,036
2024	4,668
2025	(99,887)
2026	0
thereafter	0
	<u>\$ 11,789</u>

MOUNTAIN WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 17 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Net OPEB Liability: The District's net OPEB liability was measured as of December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021.

Actuarial Assumptions and Methods: Total pension liability for CERS was determined by actuarial valuation as of June 30, 2021 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 years, closed period at June 30, 2019, <i>Gains/losses incuring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.0% for CERS Nonhazardous and Hazardous, and 0.0% for KERS Nonhazardous and Hazardous
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30 percent
Salary Increases	3.30% to 10.30%, varies by service for CERS Nonhazardous; 3.55% to 19.05%, varies by service for CERS Hazardous; 3.30% to 15.30%, varies by service for KERS Nonhazardous; 3.55% to 20.05%, varies by service for KERS Hazardous
Investment Rate of Return	6.25%
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	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.
Pre - 65	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	District certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS Non-Hazardous and Hazardous
Phase-in Provision	

MOUNTAIN WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 17 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class Target	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity		
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies		
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%

Discount Rate; The projection of cash flows used to determine the discount rate of 6.25% for CERS Nonhazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as amended by House Bill 362 (passed in 2018) over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability.

The projection of cash flows used to determine the discount rate of 5.25% for the KERS Nonhazardous, and 6.25% for KERS Hazardous, assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy, established in Statute as amended by House Bill 8, passed during the 2021 legislative session, over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability.

The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the Annual Comprehensive Financial Report (ACFR).

MOUNTAIN WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 17 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONCLUDED)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
The following presents the District's proportionate share of the net OPEB liability calculated using the discount rates of 5.20%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower, (4.20%), or 1 percentage point higher, (6.20%), than the current rate:

	1% Decrease (4.20%)	Discount Rate (5.20%)	1% Increase (6.20%)
District's Share of the Net OPEB Liability	\$2,183,017	\$1,589,970	\$1,103,277

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease \$1,144,589	Discount Rate \$1,589,970	1% Increase \$2,127,551
District's Share of the Net OPEB Liability			

OPEB Plan Fiduciary Net Position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

REQUIRED SUPPLEMENTAL INFORMATION

MOUNTAIN WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 - BUDGET (GAAP BASIS) AND ACTUAL
 For The Year Ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Metered Sales-Residential	\$ 6,905,470	\$ 6,905,470	\$ 7,026,179	\$ 120,709
Metered Sales-Commercial	602,937	602,937	565,100	(37,837)
Sewage Revenue	2,202,415	2,202,415	1,992,882	(209,533)
Metered Sales-Multi-Family	292,404	292,404	304,496	12,092
Metered Sales-Public Authorities	377,983	377,983	389,277	11,294
Other Water Service Revenue	411,190	411,190	207,619	(203,571)
Service Connection Fees	0	0	182,163	182,163
Metered Sales-Industrial	59,624	59,624	59,746	122
Fire Protection Revenue	1,125	1,125	1,525	400
TOTAL OPERATING REVENUE	\$ 10,853,148	\$ 10,853,148	\$ 10,728,987	\$ (124,161)
OPERATING EXPENSES				
Depreciation	\$ 4,231,274	\$ 4,231,274	\$ 4,197,559	\$ 33,715
Water Purchased	1,217,563	1,217,563	1,170,994	46,569
Material and Supplies	1,482,702	1,482,702	579,090	903,612
Wages	2,381,124	2,381,124	2,339,537	41,587
Contract Service-Accounting	73,519	73,519	77,590	(4,071)
Education, Dues and Meetings	0	0	37,812	(37,812)
Employee Benefits	408,557	408,557	448,440	(39,883)
Contract Service-Legal Engineering	138,897	138,897	245,482	(106,585)
Easements	0	0	7,316	(7,316)
PSC Tax Assessment	12,000	12,000	20,725	(8,725)
Payroll Taxes	179,861	179,861	155,925	23,936
Property Taxes	21,065	21,065	155,925	(134,860)
Retirement Expense	599,654	599,654	815,482	(215,828)
Settlement Fees	0	0	27,647	(27,647)
Sewage fees	0	0	78,284	(78,284)
Repairs and Maintenance	0	0	929,993	(929,993)
Utilities	1,442,855	1,442,855	1,449,102	(6,247)
Telephone Expense	0	0	56,026	(56,026)
Bad debts	50,000	50,000	60,361	(10,361)
Advertising	2,887	2,887	3,841	(954)
Rent	0	0	9,000	(9,000)
Transportation	123,234	123,234	0	123,234
Insurance	198,626	198,626	146,136	52,490
Miscellaneous	578,809	578,809	0	578,809
Amortization Expense	0	0	3,440	(3,440)
Total Operating Expenses	\$ 13,142,627	\$ 13,142,627	\$ 13,015,707	\$ 126,920
Operating Income (Loss)	\$ (2,289,479)	\$ (2,289,479)	\$ (2,286,720)	\$ 2,759
NONOPERATING REVENUES (EXPENSES)				
Gain On Sale of Assets	\$ 0	\$ 0	\$ 5,823	\$ 5,823
Interest Income	6,200	6,200	3,905	(2,295)
Interest Expense	(426,154)	(426,154)	(356,314)	69,840
Total Nonoperating Revenues (Expenses)	\$ (419,954)	\$ (419,954)	\$ (346,586)	\$ 73,368
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION	\$ (2,709,433)	\$ (2,709,433)	\$ (2,633,306)	\$ 76,127
CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION				
Government and State Grants	\$ 2,426,718	\$ 2,426,718	\$ 5,554,096	\$ (3,127,378)
Customers through Tap-on Fees	100,000	100,000	130,190	(30,190)
CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION	\$ 2,526,718	\$ 2,526,718	\$ 5,684,286	\$ (3,157,568)
CHANGE IN NET POSITION	\$ (182,715)	\$ (182,715)	\$ 3,050,980	\$ (3,081,441)

MOUNTAIN WATER DISTRICT
County Employees Retirement System Non-Hazardous
FOR THE YEAR ENDED DECEMBER 31, 2021

Last Ten Fiscal Years **

	2020-2021	2019-2020	2018-2019	2017-18	2016-17	2015-16	2014-15
Schedule of the District's Proportionate Share of the Net Pension Liability							
District's proportion of the net pension liability	0.083070%	0.0835027%	0.084444%	0.08172%	0.07050%	0.00492%	0.00499%
District's proportionate share of the net pension liability	5,296,364	6,521,501	5,938,492	4,976,000	4,127,000	242,000	163,000
District's covered-employee payroll	2,264,929	2,116,759	2,286,000	2,081,000	1,966,000	857,000	150,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	233.84239%	308.08897%	259.77655%	239.11581%	209.91862%	28.23804%	108.66667%
Plan fiduciary net position as a percentage of the total pension liability	47.81000%	50.45000%	53.54000%	53.34000%	53.32000%	55.50000%	59.97000%

	2020-2021	2019-2020	2018-2019	2017-18	2016-17	2015-16	2014-15
Schedule of District Contributions							
Contractually required contribution	\$ 409,513	\$ 420,346	\$ 502,000	\$ 524,000	\$ 485,000	\$ 194,000	\$ 26,000
Contributions in relation to the contractually required contribution	409,513	420,346	502,000	524,000	485,000	194,000	26,000
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
District's covered payroll	2,264,929	2,116,759	2,286,000	2,081,000	1,966,000	857,000	150,000
Contributions as a percentage of covered-employee payroll	18.0806%	19.8580%	21.9598%	25.1802%	24.6694%	22.6371%	17.3333%

** Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See independent auditor's report and accompanying notes to the financial statement.

MOUNTAIN WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY - MEDICAL INSURANCE PLAN

County Employees Retirement Plan

Last 10 Fiscal Years*

For The Year Ended December 31, 2021

	2021	2020	2019	2018	2017
District's proportion of the collective net OPEB liability (asset)	0.083051%	0.085020%	0.084440%	0.081720%	0.070500%
District's proportionate share of the collective net OPEB liability (asset)	<u>\$ 1,589,970</u>	<u>\$ 2,052,540</u>	<u>\$ 1,420,000</u>	<u>\$ 1,450,000</u>	<u>\$ 1,417,000</u>
Total	<u>\$ 1,589,970</u>	<u>\$ 2,052,540</u>	<u>\$ 1,420,000</u>	<u>\$ 1,450,000</u>	<u>\$ 1,417,000</u>
District's covered-employee payroll	2,264,929	2,116,759	2,286,000	2,081,000	1,966,000
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	70.200%	96.966%	62.117%	69.678%	72.075%
Plan fiduciary net position as a percentage of the total OPEB liability	62.907%	51.670%	60.438%	57.622%	52.394%

* The amounts presented for each fiscal year were determined as of June 30.

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

See independent auditor's report and accompanying notes to the financial statement.

MOUNTAIN WATER DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - MEDICAL INSURANCE PLAN
County Employees Retirement Plan
Last 10 Fiscal Years*
For The Year Ended December 31, 2021

	2021	2020	2019	2018	2017
Contractually required contribution	\$ 148,010	\$ 146,388	\$ 136,273	\$ 293,282	\$ 239,749
Contributions in relation to the					
Contractually required contribution	(148,010)	(146,388)	(136,273)	(293,282)	(239,749)
Contribution deficiency (excess)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
District's covered-employee payroll	\$ 2,264,929	\$ 2,116,759	\$ 2,286,000	\$ 2,081,000	\$ 1,966,000
Contributions as a percentage of covered-employee payroll	6.53%	6.92%	5.96%	14.09%	12.19%

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

See independent auditor's report and accompanying notes to the financial statement.

MOUNTAIN WATER DISTRICT

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION- POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) DECEMBER 31, 2021

Changes of benefit terms – None

Actuarial Assumptions and Methods: Total pension liability for CERS was determined by actuarial valuation as of June 30, 2021 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 years, closed period at June 30, 2019, <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.0% for CERS Nonhazardous and Hazardous, and 0.0% for KERS Nonhazardous and Hazardous
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30 percent
Salary Increases	3.30% to 10.30%, varies by service for CERS Nonhazardous; 3.55% to 19.05%, varies by service for CERS Hazardous; 3.30% to 15.30%, varies by service for KERS Nonhazardous; 3.55% to 20.05%, varies by service for KERS Hazardous
Investment Rate of Return	6.25%
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	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.
Pre - 65	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	District certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS Non-Hazardous and Hazardous
Phase-in Provision	

Plan description – Employees of the District are provided OPEBs through the County Employees Retirement System (CERS)—a cost-sharing, multiple-employer defined benefit OPEB plan administered by the Kentucky General Assembly. CERS issues a publicly available financial report that can be obtained at <https://kyret.ky.gov>.

The Board reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the CERS Medical Insurance and Life Insurance Plans. The following information is about the CERS plans:

Medical Insurance Plan

Plan description – Under the provisions of Kentucky Revised Statute Section 61.701, the KRS Board administers

MOUNTAIN WATER DISTRICT

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION-
POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
DECEMBER 31, 2021

the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS: (1) KERS; (2) CERS; and (3) SPRS. The assets of the Insurance Fund are also segregated by plan.

Benefits provided – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 17.06% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2021. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2021, the District's proportion for the nonhazardous was .083051%.

OPEB Liability: For the period ending December 31, 2021, the District reported a liability of \$1,589,970 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined.

MOUNTAIN WATER DISTRICT

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION-
POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
DECEMBER 31, 2021

For the year ended December 31, 2021, the District recognized OPEB expense of \$232,459 (this is from tables for pension plan year ending 06/30/21, for nonhazardous in total. The District also reported deferred outflows of resources and deferred inflows of resources related to pensions as the following:

	Deferred Outflows	Deferred Inflows
Liability Experience	\$ 250,023	\$ 474,712
Assumption Changes	421,531	1,478
Investment Experience	80,107	328,836
Change in Proportion & Differences Between Employer Contribution & Proportionate Share of Plan		
Contributions	90,168	36,088
District Contributions Subsequent to the Measurement Date	11,074	0
	<u>\$ 852,903</u>	<u>\$ 841,114</u>

The District's deferred outflows of resources of \$11,074 related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the year ending December 31, 2021. Other amounts reported as deferred outflows and inflows of resources as of December 31, 2021 will be recognized into OPEB expense (benefit) as follows:

Year Ending	
2022	\$ 77,972
2023	29,036
2024	4,668
2025	(99,887)
2026	0
thereafter	0
	<u>\$ 11,789</u>

Net OPEB Liability: The District's net OPEB liability was measured as of December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

MOUNTAIN WATER DISTRICT

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION-
POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
DECEMBER 31, 2021

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

Asset Class	Target	Target Allocation	Long-Term Expected Real Rate of Return
Growth			
US Equity	21.75%	5.70%	
Non-US Equity	21.75%	6.35%	
Private Equity	10.00%	9.70%	
Specialty Credit/High Yield	15.00%	2.80%	
Liquidity			
Core Bonds	10.00%	0.00%	
Cash	1.50%	-0.60%	
Diversifying Strategies			
Real Estate	10.00%	5.40%	
Opportunistic	0.00%	N/A	
Real Return	10.00%	4.55%	

Discount Rate; The projection of cash flows used to determine the discount rate of 6.25% for CERS Nonhazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as amended by House Bill 362 (passed in 2018) over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability.

The projection of cash flows used to determine the discount rate of 5.25% for the KERS Nonhazardous, and 6.25% for KERS Hazardous, assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy, established in Statute as amended by House Bill 8, passed during the 2021 legislative session, over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability.

The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the Annual Comprehensive Financial Report (ACFR).

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
The following presents the District's proportionate share of the net OPEB liability calculated using the discount rates of 5.20%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower, (4.20%), or 1 percentage point higher, (6.20%), than the current rate:

	1% Decrease (4.20%)	Discount Rate (5.20%)	1% Increase (6.20%)
District's Share of the Net OPEB Liability	\$2,183,017	\$1,589,970	\$1,103,277

MOUNTAIN WATER DISTRICT

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION-
POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
DECEMBER 31, 2021

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

District's Share of the Net OPEB Liability	1% Decrease \$1,144,589	Discount Rate \$1,589,970	1% Increase \$2,127,551
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OPEB Plan Fiduciary Net Position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

MOUNTAIN WATER DISTRICT
BOARD MEMBERS AND OTHER OFFICERS OF THE BOARD
DECEMBER 31, 2021

<u>NAME</u>	<u>Title</u>
Johnny Denison	Chairman
Randy Tackett	Vice-Chairman
Paul Chaney	Commissioner
Myrtle Runyon	Secretary
Kevin Vainey	Treasurer
Roy Sawyer	District Manager
Carrie Hatfield	Chief Financial Officer

OTHER REPORTS REQUIRED
BY GOVERNMENT AUDITING STANDARD

Wallen, Puckett, & Anderson, PSC
CERTIFIED PUBLIC ACCOUNTANTS

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Johnny C. Cornett, CPA
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
Mountain Water District

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 Mountain Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Mountain Water District's basic financial statements, and have issued our report thereon dated September 23, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mountain Water District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Mountain 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

WALLEN, PUCKETT, AND ANDERSON, P. S. C.

Wallen, Puckett and Anderson, PLLC

Certified Public Accountants
Pikeville, Kentucky

September 23, 2022

Wallen, Puckett, & Anderson, PSC
CERTIFIED PUBLIC ACCOUNTANTS

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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**

To the Board of Commissioners
Mountain Water District

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Mountain 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 Mountain Water District's major federal programs for the year ended December 31, 2021. Mountain 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, Mountain Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

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 Mountain 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 Mountain 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 Mountain Water District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Mountain 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 Mountain 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 Mountain 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 Mountain 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 Mountain Water District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

WALLEN, PUCKETT, AND ANDERSON, P. S. C.

Wallen, Puckett and Anderson, PLLC

Certified Public Accountants
Pikeville, Kentucky

September 23, 2022

FEDERAL FINANCIAL ASSISTANCE

MOUNTAIN WATER DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM OR CLUSTER TITLE	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<u>RURAL DEVELOPMENT</u>			
Appalachian Regional Commission	10.760	N/A	\$ 472,052
Belfry Sewer	10.760	N/A	674,140
Radio Read - RD Grant	10.760	N/A	215,212
Radio Read - RD Loan	10.760	N/A	276,411
Total U.S. Department of Agriculture			\$ 1,637,815
<u>U. S. DEPARTMENT OF HOMELAND SECURITY</u>			
<u>Federal Emergency Management Agency</u>			
<u>Kentucky Division of Emergency Management</u>			
FEMA DR 1925 KY Hazard Mitigation Grant Program	97.039	PON2 095 1300000008	\$ 136,868
Total U.S. Department of Homeland Security			\$ 136,868
Total Expenditures of Federal Awards			\$ 1,774,683

MOUNTAIN WATER DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2021

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Mountain Water District under programs of the federal government for the year ended December 31, 2021. 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 the Mountain Water District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Mountain Water District.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – INDIRECT COST RATE

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

NOTE D – LOAN BALANCES

Loans from the US Department of Agriculture, Rural Development.

Loan 91-40 WTP	\$ 534,000
Bond 91-45 Radio Read	3,033,000
Belfry WW	3,653,000
Bond 91-33	1,293,000
Bond – Shelby Sewer Project	545,000
Bond 91-01 Phelps Sewer	316,000
Bond 91-24 Russell Fork WTP	537,000

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MOUNTAIN WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2021

SECTION I – SUMMARY OF AUDITORS’ RESULTS

1. The auditor’s report expresses an unmodified opinion on whether the financial statements of Mountain Water District were prepared in accordance with GAAP.
2. No significant deficiencies were disclosed during the audit of the financial statements. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of Mountain Water District were disclosed during the audit.
4. No significant deficiency in internal control over major federal award programs disclosed during the audit. No material weaknesses are reported.
5. The auditor’s report on compliance for the major federal award programs for Mountain Water District expresses an unmodified opinion on all major federal programs.
6. No Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs included:

Name	CFDA #
U.S. Department of Agriculture / Rural Development / Belfry Sewer	10.760
U.S. Department of Agriculture / Rural Development / Radio Read	10.760

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Mountain Water District was determined to be a low-risk auditee.

SECTION II – FINDINGS – FINANCIAL STATEMENT AUDIT

There were no findings related to federal awards.

SECTION III – FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings or questioned costs related to the major federal programs which are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance.

MOUNTAIN WATER DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2021

There were no Findings on the District's prior audit report.