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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

A handwritten signature in blue ink, reading "Gerald E. Wuetcher".

Gerald E. Wuetcher

Enclosures

Cc: Tammy Olson
 PSC-Filings Branch

MOUNTAIN WATER DISTRICT
PIKEVILLE, KENTUCKY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

Wallen, Puckett, & Associates, PSC
CERTIFIED PUBLIC ACCOUNTANTS
POST OFFICE BOX 1349
PIKEVILLE, KENTUCKY 41502

MOUNTAIN WATER DISTRICT
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Wallen, Puckett, & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

106 Fourth Street • Post Office Box 1349 • Pikeville, Kentucky 41502

J. Don Wallen, CPA
L. Kevin Puckett, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Mountain Water District
Pikeville, Kentucky

Opinions

We have audited the accompanying financial statements of the business-type activities of the Mountain Water District, as of and for the year ended December 31, 2022, 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, 2022, 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. County Employees Retirement System Non-Hazardous, Schedule of the District's Proportionate Share of the Net OPEB Liability – County Employees' Retirement System, and Schedule of District Contributions – Medical Insurance Plan - County Employees' Retirement System 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 October 4, 2023, 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, PSC

Certified Public Accountants
Pikeville, Kentucky

October 4, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mountain Water District
Management Discussion and Analysis
December 31, 2022

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, 2022. 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 \$68,688,018 a decrease of \$1,394,049 as compared to the prior year Net Position of \$70,082,067 with an increase of \$3,206,905.

- The current year's expense total was \$13,419,587 and there was \$10,837,718 in fees and charges, before Capital Contributions and other changes in Net Position. In the previous year, expenses were \$12,859,782 and there was \$10,728,987 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 decreased by \$1,394,049, from \$70,082,067 to \$68,688,018. In contrast, last year Net Position increased by \$3,206,905. 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, 2022

Table 1 - Net Position

	2022	2021
Current and other assets	\$ 1,923,496	\$ 1,889,788
Capital assets	89,674,005	92,401,012
Other assets	3,443,296	3,054,255
Total Assets	<u>\$ 95,040,797</u>	<u>\$ 97,345,055</u>
Deferred outflows of resources	<u>\$ 1,861,583</u>	<u>\$ 1,494,155</u>
Long-term liabilities	\$ 23,327,340	\$ 24,335,499
Current liabilities	3,096,679	2,537,165
Total Liabilities	<u>\$ 26,424,019</u>	<u>\$ 26,872,664</u>
Deferred inflows of resources	<u>\$ 1,790,343</u>	<u>\$ 1,884,479</u>
Net position		
Invested In Capital Assets,		
Net of Debt	\$ 72,308,830	\$ 73,607,115
Restricted	3,077,271	3,077,271
Unrestricted	(6,698,083)	(6,602,319)
Total net position	<u>\$ 68,688,018</u>	<u>\$ 70,082,067</u>

The Net Position of the District decreased by 1.982 percent (\$68,688,018 compared to \$70,082,067). 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 \$(6,602,319) at December 31, 2021 to a \$(6,698,083) at the end of this year.

Mountain Water District
Management Discussion and Analysis
December 31, 2022

TABLE 2 - Changes in Net Position

	<u>2022</u>	<u>2021</u>
Revenues		
Operating Revenue	\$ 10,837,715	\$ 10,728,987
Total revenues	<u>\$ 10,837,715</u>	<u>\$ 10,728,987</u>
Expenses		
Operating	\$ 13,419,587	\$ 12,859,782
Total expenses	<u>\$ 13,419,587</u>	<u>\$ 12,859,782</u>
Excess (deficiency) before special items	\$ (2,581,872)	\$ (2,130,795)
Non Operating Income (Expense)		
Interest	\$ 8,494	\$ 3,905
Sale of Assets	4,000	5,823
Interest Paid	(361,650)	(356,314)
Bond Issue Costs	(89,980)	0
Rate Study	(52,510)	0
Government and State Grants	1,573,781	5,554,096
Customers through Tap-on Fees	105,688	130,190
Increase (decrease) in Net Position	<u>\$ (1,394,049)</u>	<u>\$ 3,206,905</u>

The District's total revenues (excluding special items) increased by 1.0134 percent or \$108,728. The total cost of all programs and services increased by \$559,805, or 4.353 percent.

Budgetary Highlights

The actual charges to operating expenses were \$80,899 above the final budget amounts before depreciation.

Resources available were \$247,162 above the final budget amount.

CAPITAL ASSET

Capital Assets

At the end of December 31, 2022, the District had \$89,277,203 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 decrease (including additions and deductions) of \$2,138,437, or 2.3392 percent, under last year.

Mountain Water District
Management Discussion and Analysis
December 31, 2022

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

	<u>2022</u>	<u>2021</u>
Land and Land Rights	\$ 580,874	\$ 578,640
Supply & Pumping	5,713,544	5,752,161
Water Treatment Equipment	10,165,318	10,088,258
Transmission & Distribution	96,978,677	96,651,190
General Plant	6,585,444	6,617,049
Sewer Utility Plant	46,958,924	45,275,233
Sewer General Plant	957,215	784,611
Less: Accumulated Depreciation	<u>(78,662,793)</u>	<u>(74,331,501)</u>
	<u>\$ 89,277,203</u>	<u>\$ 91,415,641</u>

The District's fiscal-year 2023 capital budget calls for it to spend another \$348,346 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 Districted refinanced \$5,880,000 of debt in 2022 that resulted in a total savings of \$1,128,104 with a net present value of \$686,565.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's appointed officials considered many factors when setting the fiscal-year 2023 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, 2022

ASSETS

Current Assets

Cash and Cash Equivalent	\$	111,127
Accounts Receivable		
(Net of Allowances for Bad Debts of \$36,000 & \$37,000)		1,367,992
not used		0
Prepaid Expenses		18,727
Inventory		425,650
Total Current Assets	\$	<u>1,923,496</u>

Non Current Assets

Restricted Cash

Cash-Depreciation Reserve	\$	863,039
Cash-Construction		282,032
Cash-Customer Deposits		391,526
Cash-Recycling Account		6,120
Cash-Operation and Maintenance Reserve		100,060
Cash-Wastewater Operation and Maintenance Reserve		871,618
Cash-Sinking Fund		587,220
Total Restricted Cash	\$	<u>3,101,615</u>

Capital Assets

Land and Land Rights	\$	580,874
Supply & Pumping		5,713,544
Water Treatment Equipment		10,165,318
Transmission & Distribution		96,978,677
General Plant		6,585,444
Sewer Utility Plant		46,958,924
Sewer General Plant		957,215
Total Capital Assets	\$	<u>167,939,996</u>
Less: Accumulated Depreciation		<u>(78,662,793)</u>
Net Capital Assets	\$	<u>89,277,203</u>

Construction in Progress	\$	<u>396,802</u>
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Other Assets

Deposit on leased Vehicles	\$	625
FEMA receivable		3,733
Other Receivables		337,323
Total Other Assets	\$	<u>341,681</u>

Total Non Current Assets	\$	<u>93,117,301</u>
Total Assets	\$	<u>95,040,797</u>

Deferred Outflows of Resources

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

MOUNTAIN WATER DISTRICT

STATEMENT OF NET POSITION

December 31, 2022

Deferred Pension Contributions	\$ 1,073,242
Deferred OPEB	788,341
Total Deferred Outflows of Resources	<u>\$ 1,861,583</u>

LIABILITIES AND NET ASSETS

Liabilities

Current Liabilities

Accounts Payable Trade	\$ 654,713
Accrued Payroll Taxes	104,665
Accrued Interest	110,514
Customer Deposits	484,992
Line of Credit	113,837
Bonds Payable, Current	743,562
Notes Payable and Capital Leases, Current	494,000
Total Current Liabilities	<u>\$ 2,706,283</u>

Long-Term Liabilities

Bonds Payable, Long-Term	\$ 13,124,896
Net Pension Liability	5,700,728
Net OPEB Liability	1,556,037
Notes Payable and Capital Leases, Long-Term	4,244,523
Advances For Construction	386,152
Less - Deferred Financing Cost	(57,038)
Less - Bonds Payable, Current	(494,000)
Less - Notes Payable and Capital Leases , Current	(743,562)
Total Long-Term Liabilities	<u>\$ 23,717,736</u>
Total Liabilities	<u>\$ 26,424,019</u>

Deferred Inflows of Resources

Deferred Pension Investment Earnings	\$ 906,704
Deferred OPEB	883,639
Total Deferred Inflows of Resources	<u>\$ 1,790,343</u>

Net Position

Invested in capital Assets, net of related debt	\$ 71,918,434
Restricted for:	
Construction	282,032
Depreciation, Maintenance and Replacement - Capital Assets	2,179,973
Customer Deposits	410,014
Sinking Fund	300,967
Unrestricted (Deficit)	(6,403,402)
Total Net Position	<u>\$ 68,688,018</u>

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

MOUNTAIN WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For The Year Ended December 31, 2022

OPERATING REVENUES

Metered Sales-Residential	\$ 6,885,947
Metered Sales-Commercial	706,757
Sewage Revenue	2,053,891
Metered Sales-Multi-Family	297,860
Metered Sales-Public Authorities	445,975
Other Water Service Revenue	228,012
Service Connection Fees	158,253
Metered Sales-Industrial	59,520
Fire Protection Revenue	1,500
TOTAL OPERATING REVENUE	\$ 10,837,715

OPERATING EXPENSES

Depreciation	\$ 4,331,292
Water Purchased	1,206,560
Material and Supplies	668,191
Wages	2,464,044
Contract Service-Accounting	93,955
Education, Dues and Meetings	48,005
Employee Benefits	553,811
Contract Service-Legal Engineering	348,120
Easements	728
PSC Tax Assessment	15,770
Payroll Taxes	179,676
Retirement Expense	528,906
Settlement Fees	11,065
Sewage fees	57,789
Repairs and Maintenance	1,071,984
Utilities	1,642,777
Telephone Expense	48,850
Advertising	2,105
Insurance	142,519
Amortization Expense	3,440
Total Operating Expenses	\$ 13,419,587
Operating Income (Loss)	\$ (2,581,872)

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

MOUNTAIN WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Year Ended December 31, 2022

OPERATING REVENUES

NONOPERATING REVENUES (EXPENSES)

Gain On Sale of Assets	\$	4,000
Interest Income		8,494
Interest Expense		(361,650)
Bond Issue Cost		(89,980)
Rate Study		(52,510)
Total Nonoperating Revenues (Expenses)	\$	(491,646)
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION	\$	(3,073,518)

CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION

Government and State Grants	\$	1,573,781
Customers through Tap-on Fees		105,688
CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION	\$	1,679,469
CHANGE IN NET POSITION	\$	(1,394,049)

NET POSITION - BEGINNING OF YEAR 70,082,067

NET POSITION - END OF YEAR \$ 68,688,018

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

MOUNTAIN WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from:

Reciepts from Customers **\$ 10,607,680**

Cash Paid to/for:

Employees **(3,838,140)**

Water Purchased **(1,206,560)**

Payments to Suppliers **(3,856,999)**

Net Cash Provided (Used) by Operating Activities **\$ 1,705,981**

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest Income **\$ 8,494**

Net Cash Provided (Used) by Investing Activities **\$ 8,494**

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds From Tap-On Fees **\$ 105,688**

Payments for rate increase Government Grants **1,573,781**

Advances for Construction **(557,984)**

Purchases of Equipment **(1,604,286)**

Loan and LOC Proceeds **6,430,186**

Principal Payments **(7,490,465)**

Bond Issue Costs **(89,980)**

Interest Payments **(339,137)**

Proceeds from Sale of Vehicles **4,000**

Net Cash (Used) by Capital and Related Financing Activities **\$ (1,968,197)**

CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES

Customer Deposits **\$ 46,250**

Rate Study **(52,510)**

OTHER **2**

Net Cash Provided(Used) by Non Capital Financing Activities **\$ (6,258)**

Net Increase (Decrease) in Cash and Cash Equivalents **\$ (259,980)**

Cash and Cash Equivalents - Beginning **3,419,649**

Cash and Cash Equivalents - Ending **\$ 3,159,669**

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

MOUNTAIN WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

Reconciliation of Operating Income (Loss)

To Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$ (2,581,872)
Adjustments to Reconcile Operating Income to Net Cash	
Operating Activities:	
Depreciation	4,331,292
Amortization	3,440
Change in Assets and Liabilities:	
(Increase) Decrease	
Customer Accounts Receivable	(230,035)
Inventory	(43,571)
Prepaid Expnses	(18,727)
Deferred Outflows of Resources	
Deferred Pension Contributions	(431,990)
Deferred OPEB	64,562
Increase (Decrease) in:	
Accounts Payable	357,157
Accrued Payroll Taxes	(20,570)
Deferred Inflows of Resources	
Deferred Pension Investment Earnings	(136,661)
Deferred OPEB	42,525
Pension liability	404,364
OPEB liability	(33,933)
Net Cash provided (Used) by Operating Activities	<u>\$ 1,705,981</u>

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

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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" is 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 include 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

Propriety 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.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 a 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 include 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 are 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, 2022, inventory balance was \$425,650.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Cash and Cash Equivalents

For the 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, 2022, cash and cash equivalents restricted cash consisted of the following:

Petty Cash	\$	320
Cash In Bank		110,807
Restricted Cash		3,438,938
Total	\$	<u>3,550,065</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, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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, 2022 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, 2022 was \$2,105.

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".

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.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 of \$484,992 were held as of December 31, 2022, and \$391,526 was 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 preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 30, 2023 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 consist of excess of restricted cash over liabilities payable from restricted cash.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 7. DEPOSITS WITH FINANCIAL INSTITUTIONS

On December 31, 2022, the carrying amount of the District's deposits with financial institutions was \$3,216,154 and the bank balance, per statements, was \$3,310,940. The Bank balance is collateralized as follows:

Amount insured by FDIC	\$ 1,214,779
Amount collateralized by securities held by third party trust company in the District's name	2,096,161
Total Bank Balance	<u><u>\$ 3,310,940</u></u>

NOTE 8. CONSTRUCTION FUNDS

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

	<u>2022</u>
District Wide Tap Fees	\$ 91,224
Misc. Line Extensions	4,921
PHELP SEWER PROJECT	5,372
Big Creek Sewer Coal Settlement	5,401
Various Short Line Extensions	91
Belfry Pond Sewer Project	2,837
Phelps Upgrade	8,574
Pike County Fiscal Court Projects	81,458
Repair and Maintenance Reimbursement	3,399
FEMA	0
ARPA Funding	78,537
Various Misc. Projects	218
Total Construction Funds	<u><u>\$ 282,032</u></u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 9. ADVANCES FOR CONSTRUCTION

	<u>2022</u>
<u>Water Projects</u>	
In House Projects	\$ 248,120
 <u>Sewer Projects</u>	
In House Projects	<u>138,032</u>
Total Advances for Construction	<u>\$ 386,152</u>

MOUNTAIN WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 CONSTRUCTION IN PROGRESS

Mountain Water District has overseen several construction projects. As of December 31, 2022 the following projects were in progress.

	<u>1/1/2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2022</u>
<u>Water Projects</u>				
Radio Read	\$ 28,414	\$ 144,728	\$ 173,142	\$ 0
Water tap	0	36,582	36,582	0
Tank Rehab	0	69,425	69,425	0
Various In House Projects	82,853	125,755	15,764	192,844
Total	<u>\$ 111,267</u>	<u>\$ 376,490</u>	<u>\$ 294,913</u>	<u>\$ 192,844</u>
<u>Sewer Projects</u>				
Phelps/Buskirk	\$ 735,396	\$ 657,658	\$ 1,393,054	\$ 0
Henry Clay	138,708	67,633	2,383	203,958
Total accumulated depreciation	<u>\$ 874,104</u>	<u>\$ 725,291</u>	<u>\$ 1,395,437</u>	<u>\$ 203,958</u>
Capital Assets-net	<u>\$ 985,371</u>			<u>\$ 396,802</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 11. CAPITAL ASSETS

The following is a summary of changes in fixed asset:

	<u>1/1/2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2022</u>
Non Depreciable				
Land and Land Rights	\$ 577,154	\$ 3,720	\$ 0	\$ 580,874
Total Non Depreciable	<u>\$ 577,154</u>	<u>\$ 3,720</u>	<u>\$ 0</u>	<u>\$ 580,874</u>
Depreciable				
Supply & Pumping	\$ 5,703,803	\$ 9,741	\$ 0	\$ 5,713,544
Water Treatment Equipment	10,088,258	77,060	0	10,165,318
Transmission & Distribution	96,651,190	327,487	0	96,978,677
General Plant	6,376,170	209,274	0	6,585,444
Sewer Utility Plant	45,396,468	1,562,456	0	46,958,924
Sewer General Plant	954,098	3,117	0	957,215
Total Depreciable	<u>\$ 165,169,987</u>	<u>\$ 2,189,135</u>	<u>\$ 0</u>	<u>\$ 167,359,122</u>
Total at historical cost	<u>\$ 165,747,141</u>	<u>\$ 2,192,855</u>	<u>\$ 0</u>	<u>\$ 167,939,996</u>
Less: Accumulated depreciation				
Supply & Pumping	\$ 2,497,915	\$ 120,149	\$ 0	\$ 2,618,064
Water Treatment Equipment	3,643,402	284,137	0	3,927,539
Transmission & Distribution	48,860,034	2,388,827	0	51,248,861
General Plant	5,194,631	327,145	0	5,521,776
Sewer Utility Plant	13,847,008	1,185,738	0	15,032,746
Sewer General Plant	288,511	25,296	0	313,807
Total accumulated depreciation	<u>\$ 74,331,501</u>	<u>\$ 4,331,292</u>	<u>\$ 0</u>	<u>\$ 78,662,793</u>
Capital Assets-net	<u>\$ 91,415,640</u>			<u>\$ 89,277,203</u>

Depreciation expense was \$4,331,292 for the year ended December 31, 2022.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

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, 2022.

Changes In Long-Term Debt

Description	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds	\$ 9,931,000	\$ 6,058,270	\$ 2,864,374	\$ 13,124,896
Total Notes Payable and Capital Leases	7,918,762	328,558	4,002,798	4,244,522
	<u>\$ 17,849,762</u>	<u>\$ 6,386,828</u>	<u>\$ 6,867,172</u>	<u>\$ 17,369,418</u>

Maturities of Long-Term Debt

YEAR		Bonds		
		Principle	Interest	Total
	2023	\$ 494,000	\$ 341,080	\$ 835,080
	2024	443,600	322,140	765,740
	2025	460,500	304,211	764,711
	2026	479,000	285,471	764,471
	2027	491,900	265,877	757,777
2027	2032	2,466,500	1,025,671	3,492,171
2032	2037	2,176,100	680,568	2,856,668
2037	2042	1,861,100	456,223	2,317,323
2042	2047	1,291,800	276,394	1,568,194
2047	2052	1,011,300	177,950	1,189,250
2052	2057	1,096,400	92,346	1,188,746
2057	2062	462,300	11,380	473,680
		<u>\$ 12,734,500</u>	<u>\$ 4,239,310</u>	<u>\$ 16,973,810</u>

YEAR		Notes Payable		
		Principle	Inter Interest	Total
	2023	\$ 743,562	\$ 48,477	\$ 792,039
	2024	442,603	33,332	475,935
	2025	355,469	27,365	382,833
	2026	242,434	21,347	263,781
	2027	241,073	18,497	259,571
2027	2032	1,013,214	64,827	1,078,041
2032	2037	976,037	26,991	1,003,028
2037	2042	230,130	1,050	231,180
2042	2047			
		<u>\$ 4,244,522</u>	<u>\$ 241,886</u>	<u>\$ 4,486,408</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 13 BONDS

Shelby Waste Water Project Fund \$ 0

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 0

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 0

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 3,584,500

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 0

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 pledge of all water revenue from the system.

Kentucky Rural Water Fund 5,970,396

The 5.2% revenue bonds issued January 2022 in the original amount of \$5,580,000 are payable to Kentucky Rural Water Finance Corporation to the year 2045. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and pledge of all water revenue from the system.

Total bonds	\$ 13,124,896
Less current portion	(494,000)
Long Term Bonds Payable	<u>\$ 12,630,896</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

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. \$ 0

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. 253,433

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. 16,776

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. 105,405

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. 20,171

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. 165,039

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. 2,823,665

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. 228,698

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 14 NOTES PAYABLE AND CAPITAL LEASES

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 0

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. 0

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. 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. 23,945

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. 0

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. 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. 17,135

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. 17,135

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 16,379

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. 0

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 14 NOTES PAYABLE AND CAPITAL LEASES

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. 23,456

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. 22,247

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. 21,995

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. 43,617

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. 22,204

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. 38,162

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. 56,502

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. 21,219

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. 21,219

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. 39,001

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 14 NOTES PAYABLE AND CAPITAL LEASES

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. 21,116

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. 22,460

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. 22,675

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. 180,868

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. 0

Total Notes Payable and Capital Leases

\$ 4,244,522

Less current portion

(743,562)

Total Long-term Portion

\$ 3,500,960

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 15. RESTRICTED ASSETS AND RESERVE NET POSITION

As of December 31, 2022 restricted cash were as follows:

	<u>2022</u>
Depreciation Reserve	\$ 863,039
Sinking Fund	587,220
Customer Deposit Escrow Account	391,526
Operation & Maintenance reserve	100,060
Waste Water O & M Reserve	871,618
Recycling Account	6,120
Construction Account	282,032
<u>Total Restricted Cash</u>	<u>\$ 3,101,615</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.

	<u>Maximum Required Balance</u>	<u>Required Balance at 12/31/22</u>	<u>Actual Balance At 12/31/22</u>
Depreciation Reserve Funds	\$ 852,060	\$ 852,060	\$ 863,039
Repairs and Maintenance Funds	1,296,794	882,868	971,678
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.

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, 2022, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. 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, 2022 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, 2022. At June 30, 2022, the District's proportion was .078859%.

For the year ended December 31, 2022, the District recognized pension expense of \$355,973. At December 31, 2022, 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	\$ 6,095
Changes of Assumptions	0
Investment Experience	775,698
Changes in Proportion & Differences Between Employer Contributions & Proportionate Share of Contributions	2,372
District contributions subsequent to Measurement Date	289,077
	<u>\$ 1,073,242</u>

Deferred Inflows of Resources for:

Liability Experience	\$ 50,767
Assumption Changes	0
Investment Experience	629,552
Changes in Proportion & Differences Between Employer Contributions & Proportionate Share of Contributions	226,385
	<u>\$ 906,704</u>

NOTE 16 – RETIREMENT PLAN (Continued)

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

	Year	Amount
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:	2023	\$ 143,596
	2024	(91,098)
	2025	(47,906)
	2026	161,946
	2027	0
		<u>\$ 166,538</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, 2022, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2020
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 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 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 retiree mortality is 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 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.

NOTE 16 – RETIREMENT PLAN (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income		
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected		
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
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 of 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.

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	\$7,125,202	\$5,700,728	\$4,522,569

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, 2022 the District had payables to CERS in the amount of \$0 for June's covered payroll with contributions required to be paid in July.

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, 2022

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Metered Sales-Residential	\$ 6,777,462	\$ 6,777,462	\$ 6,885,947	\$ 108,485
Metered Sales-Commercial	575,581	575,581	706,757	131,176
Sewage Revenue	2,072,805	2,072,805	2,053,891	(18,914)
Metered Sales-Multi-Family	300,947	300,947	297,860	(3,087)
Metered Sales-Public Authorities	397,200	397,200	445,975	48,775
Other Water Service Revenue	406,415	406,415	228,012	(178,403)
Service Connection Fees	0	0	158,253	158,253
Metered Sales-Industrial	58,743	58,743	59,520	777
Fire Protection Revenue	1,400	1,400	1,500	100
TOTAL OPERATING REVENUE	\$ 10,590,553	\$ 10,590,553	\$ 10,837,715	\$ 247,162
OPERATING EXPENSES				
Depreciation	\$ 3,994,752	\$ 3,994,752	\$ 4,331,292	\$ (336,540)
Water Purchased	1,132,985	1,132,985	1,206,560	(73,575)
Material and Supplies	1,558,890	1,558,890	668,191	890,699
Wages	2,589,976	2,589,976	2,464,044	125,932
Contract Service-Accounting	80,549	80,549	93,955	(13,406)
Education, Dues and Meetings	0	0	48,005	(48,005)
Employee Benefits	520,650	520,650	553,811	(33,161)
Contract Service-Legal Engineering	54,761	54,761	348,120	(293,359)
Easements	0	0	728	(728)
PSC Tax Assessment	12,000	12,000	15,770	(3,770)
Payroll Taxes	195,167	195,167	179,676	15,491
Property Taxes	20,725	20,725	0	20,725
Retirement Expense	660,573	660,573	528,906	131,667
Settlement Fees	0	0	11,065	(11,065)
Sewage fees	0	0	57,789	(57,789)
Repairs and Maintenance	0	0	1,071,984	(1,071,984)
Utilities	1,380,912	1,380,912	1,642,777	(261,865)
Telephone Expense	0	0	48,850	(48,850)
Advertising	3,703	3,703	2,105	1,598
Transportation	140,000	140,000	0	140,000
Insurance	198,797	198,797	142,519	56,278
Miscellaneous	457,708	457,708	0	457,708
Amortization Expense	0	0	3,440	(3,440)
Total Operating Expenses	\$ 13,002,148	\$ 13,002,148	\$ 13,419,587	\$ (417,439)
Operating Income (Loss)	\$ (2,411,595)	\$ (2,411,595)	\$ (2,581,872)	\$ (170,277)
NONOPERATING REVENUES (EXPENSES)				
Gain On Sale of Assets	\$ 0	\$ 0	\$ 4,000	\$ 4,000
Interest Income	3,938	3,938	8,494	4,556
Interest Expense	(299,634)	(299,634)	(361,650)	(62,016)
Bond Issue Cost	0	0	(89,980)	(89,980)
Rate Study	0	0	(52,510)	(52,510)
Total Nonoperating Revenues (Expenses)	\$ (295,696)	\$ (295,696)	\$ (491,646)	\$ (195,950)
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION	\$ (2,707,291)	\$ (2,707,291)	\$ (3,073,518)	\$ (366,227)
CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION				
Government and State Grants	\$ 1,250,000	\$ 1,250,000	\$ 1,573,781	\$ 323,781
Customers through Tap-on Fees	100,000	100,000	105,688	5,688
CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION	\$ 1,350,000	\$ 1,350,000	\$ 1,679,469	\$ 329,469
CHANGE IN NET POSITION	\$ (1,357,291)	\$ (1,357,291)	\$ (1,394,049)	\$ (36,758)

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

MOUNTAIN WATER DISTRICT
County Employees Retirement System Non-Hazardous
FOR THE YEAR ENDED DECEMBER 31, 2022

Last Ten Fiscal Years **

	2022	2021	2020	2019	2018	2017	2016	2015
Schedule of the District's Proportionate Share of the Net Pension Liability								
District's proportion of the net pension liability	0.078859%	0.083070%	0.085027%	0.08444%	0.08172%	0.07050%	0.00492%	0.00499%
District's proportionate share of the net pension liability	5,700,728	5,296,364	6,521,501	5,938,492	4,976,000	4,127,000	242,000	163,000
District's covered-employee payroll	2,296,964	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	248.18534%	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	52.42000%	47.81000%	50.45000%	53.54000%	53.54000%	53.32000%	55.50000%	59.97000%
Schedule of District Contributions								
	2,022	2,021	2,020	2,019	2,018	2016-17	2015-16	2014-15
Contractually required contribution	\$ 530,908	\$ 409,513	\$ 420,346	\$ 502,000	\$ 524,000	\$ 485,000	\$ 194,000	\$ 26,000
Contributions in relation to the contractually required contribution	530,908	409,513	420,346	502,000	524,000	485,000	194,000	26,000
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered payroll	2,296,964	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	23.1135%	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, 2022

	2022	2021	2020	2019	2018	2017
District's proportion of the collective net OPEB liability (asset)	0.078646%	0.083051%	0.085020%	0.084440%	0.081720%	0.070500%
District's proportionate share of the collective net OPEB liability (asset)	\$ 1,556,037	\$ 1,589,970	\$ 2,052,540	\$ 1,420,000	\$ 1,450,000	\$ 1,417,000
Total	<u>\$ 1,556,037</u>	<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	2,296,964	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	67.743%	70.200%	96.966%	62.117%	69.678%	72.075%
Plan fiduciary net position as a percentage of the total OPEB liability	60.950%	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.

MOUNTAIN WATER DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - MEDICAL INSURANCE PLAN
County Employees Retirement Plan
Last 10 Fiscal Years*
For The Year Ended December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 155,501	\$ 148,010	\$ 146,388	\$ 136,273	\$ 293,282	\$ 239,749
Contributions in relation to the						
Contractually required contribution	(155,501)	(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>	<u>\$ 0</u>
District's covered-employee payroll	\$ 2,296,964	\$ 2,264,929	\$ 2,116,759	\$ 2,286,000	\$ 2,081,000	\$ 1,966,000
Contributions as a percentage of covered- employee payroll	6.77%	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.

MOUNTAIN WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 2022. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2022, the District's proportion for the nonhazardous was .078846%.

OPEB Liability: For the period ending December 31, 2022, the District reported a liability of \$1,556,037 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, 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, 2022, the District recognized OPEB expense of \$245,225 (this is from tables for pension plan year ending 06/30/22, 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	\$ 156,628	\$ 356,835
Assumption Changes	246,098	202,783
Investment Experience	289,750	226,594
Change in Proportion & Differences Between Employer Contribution & Proportionate Share of Plan		
Contributions	53,986	97,427
District Contributions Subsequent to the Measurement Date	41,879	0
	<u>\$ 788,341</u>	<u>\$ 883,639</u>

The District's deferred outflows of resources of \$41,879 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, 2022. Other amounts reported as deferred outflows and inflows of resources as of December 31, 2022 will be recognized into OPEB expense (benefit) as follows:

Year Ending	
2023	\$ 48,160
2024	(17,865)
2025	(117,810)
2026	(7,783)
2027	0
Thereafter	0
	<u>\$ (95,298)</u>

MOUNTAIN WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

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, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022.

Actuarial Assumptions and Methods: Total pension liability for CERS was determined by actuarial valuation as of June 30, 2022 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2020
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	
Pre - 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post - 65	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement. Humana provided "Not to Exceed" 2022 Medicare premiums, which were incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 1, 2022.

MOUNTAIN WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 weighing 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
Equity		
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income		
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected		
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%

Discount Rate; The projection of cash flows used to determine the discount rate of 5.70% 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 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, 2022

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 5.70%, 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, (4.70%), or 1 percentage point higher, (6.70%), than the current rate:

	<u>1% Decrease (4.70%)</u>	<u>Discount Rate (5.70%)</u>	<u>1% Increase (6.70%)</u>
District's Share of the Net OPEB Liability	\$2,080,173	\$1,556,037	\$1,122,751

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:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
District's Share of the Net OPEB Liability	\$1,156,879	\$1,556,037	\$2,035,350

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

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION- POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) DECEMBER 31, 2022

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, 2020
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	
Pre - 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Phase-in Provision	District certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS Non-Hazardous and Hazardous

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:

MOUNTAIN WATER DISTRICT

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION- POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) DECEMBER 31, 2022

Medical Insurance Plan

Plan description – Under the provisions of Kentucky Revised Statute Section 61.701, the KRS Board administers 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, 2022

For the year ended December 31, 2022, the District recognized OPEB expense of \$245,225 (this is from tables for pension plan year ending 06/30/22, 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	\$ 156,628	\$ 356,835
Assumption Changes	246,098	202,783
Investment Experience	289,750	226,594
Change in Proportion & Differences Between Employer Contribution & Proportionate Share of Plan Contributions	53,986	97,427
District Contributions Subsequent to the Measurement Date	41,879	0
	<u>\$ 788,341</u>	<u>\$ 883,639</u>

The District's deferred outflows of resources of \$41,879 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, 2022. Other amounts reported as deferred outflows and inflows of resources as of December 31, 2022 will be recognized into OPEB expense (benefit) as follows:

Year Ending	
2023	\$ 48,160
2024	(17,865)
2025	(117,810)
2026	(7,783)
2027	0
thereafter	0
	<u>\$ (95,298)</u>

Net OPEB Liability: The District 's net OPEB liability was measured as of December 31, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022.

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, 2022

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
Equity		
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income		
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected		
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%

Discount Rate: The projection of cash flows used to determine the discount rate of 5.70% 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 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 (4.70%)	Discount Rate (5.70%)	1% Increase (6.70%)
District's Share of the Net OPEB Liability	\$2,080,173	\$1,556,037	\$1,122,751

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	Discount Rate	1% Increase
District's Share of the Net OPEB Liability	\$1,156,879	\$1,556,037	\$2,035,350

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, 2022

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

**OTHER REPORTS REQUIRED
BY GOVERNMENT AUDITING STANDARD**

Wallen, Puckett, & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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J. Don Wallen, CPA
L. Kevin Puckett, CPA
Johnny K. White, CPA

Phone: 606-432-8833
Fax: 606-432-8466

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, 2022, 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 October 4, 2023.

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, PSC

Certified Public Accountants
Pikeville, Kentucky

October 4, 2023