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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

REPORT OF AUDIT

DECEMBER 31, 2023

RICHARD F. PAULMANN, CPA, LLC
301 MOUNT MERCY ROAD
PEWEE VALLEY, KY 40056
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Mountain Water District
Pikeville, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities, of the Mountain Water District as of and for the year ended December 31, 2023, 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Mountain Water District, as of December 31, 2023 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for 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 3–5 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2024, 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.

The financial statements for the year ended December 31, 2022 are being presented for comparison purposes only. They were audited by Wallen, Puckett, & Associates, PSC dated October 4, 2023 in which an Unmodified Opinion was expressed.

Richard F. Paulmann

Richard F. Paulmann, CPA, LLC

Pewee Valley, KY
September 19, 2024

MOUNTAIN WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

Our discussion and analysis of the Mountain Water (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2023. Please read it in conjunction with the accompanying basic financial statements. It is our intent that this discussion provide all parties interested in the District's financial condition, especially the users of the facilities, a better understanding of the District's operations and financial status.

The District reports its financial statements in a required model format issued by the Governmental Accounting Standards Board.

Financial Highlights

- Net assets decreased this year by \$3,051,327
 - from operating activities and before capital contributions.
- The District's total long-term debt increased by \$365,733 from the prior year.
- The District acquired several vehicles through financing.
- The District was able to make the following purchases:
 1. Significant water and sewer line extensions to the outlying areas of Pike County.
 2. Assorted new equipment for treatment plant and distribution system to facilitate daily operations.

Overview of the Financial Statements

The District's basic financial statements include: (1) fund financial statements, and (2) notes to the financial statements. These financial statements present information about business-type activities, which consists principally of the fees the District charges its users to cover all or most of the cost of the services it provides.

Fund Financial Statements

The fund financial statements provide detailed information about the proprietary fund. When the District charges customers for services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the District's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.

MOUNTAIN WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(CONTINUED)

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Reporting on the District as a Whole

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statements of Financial Position and the Statement of Revenue, Expenses and Changes in Fund Net Assets report information about the District as a whole and about its activities in a way that helps answer this question.

Our discussion begins with an analysis of overall revenues and expenses and their treatment. A majority of the District's revenue is received from charges for services.

The District's total revenues decreased from a year ago by \$112,250 (1%). The decrease was the result of a loss of customers of 1%. Total cost of all programs and services (including depreciation) decreased by \$105,068 (1%). Interest expense increased by \$93,122, due in large part to the issuance of bonds for new projects. This trend is expected to remain approximately the same through the next fiscal year end.

Financial Analysis of the District's Proprietary Fund

At year-end, the District's proprietary fund reported total net assets of \$94,242,670, which is an decrease of \$798,127 from last year.

Capital Assets

As noted above, the District was able to make several capital asset purchases without significant additional debt.

Debt/Advances in Construction

At year-end, the District had various bond/notes payables to various lenders with a combined remaining principal balance of \$17,047,198 to be paid from utility revenues.

As of December 31, 2023, the District received advances for construction towards projects not completed in the amount of \$2,891,348. During 2023, various construction projects were completed allowing the advances for construction from the prior year in the amount of \$0 to be transferred to capital contributions from government grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(CONTINUED)

Contacting the District's Financial Management

This financial report is designed to provide our customers, creditors, and other users 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 the District's Treasurer, at the Mountain Water District, P. O. Box 3157, Pikeville, KY 41502, telephone number (606) 631-9162.

MOUNTAIN WATER DISTRICT
STATEMENT OF NET POSITION
,December 31, 2023
(with prior year data for comparison purposes only)

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 107,399	\$ 111,127
Accounts Receivable (Net of Allowance for Delinquencies of \$40,000 in 2023 and \$36,000 in 2022)	1,381,378	1,367,992
Prepaid Expenses	-	18,727
Inventory	<u>530,468</u>	<u>425,650</u>
TOTAL CURENT ASSETS	<u>2,019,245</u>	<u>1,923,496</u>
<u>NONCURRENT ASSETS</u>		
Restricted Cash		
Cash-Depreciation Reserve	883,618	863,039
Cash-Construction	460,151	282,032
Cash-Customer Deposits	439,096	391,526
Cash-Recycling Account	3,566	6,120
Cash-O & M Reserve	37,187	100,060
Cash-Wastewater Operation and Maintenance Reserve	891,701	871,618
Cash-Sinking Fund	<u>620,340</u>	<u>587,220</u>
TOTAL RESTRICTED CASH	3,335,659	3,101,615
Capital Assets		
Supply & Pumping	5,713,544	5,713,544
Water Treatment Equipment	10,216,355	10,165,318
Transmission & Distribution	96,988,619	96,978,677
General Plant	6,585,444	6,585,444
Land and Land Rights	615,498	580,874
Sewer Utility Plant	47,534,681	46,958,924
Sewer General Plant	<u>957,215</u>	<u>957,215</u>
Total Capital Assets	168,611,356	167,939,996
Less: Accumulated Depreciation	<u>(82,954,613)</u>	<u>(78,662,793)</u>
Net Capital Assets	<u>85,656,743</u>	<u>89,277,203</u>
Construction in Progress	2,988,870	396,802
OTHER ASSETS		
Deposit on Leased Vehicles	625	625
FEMA receivable	859	3,733
Other Receivables	<u>240,669</u>	<u>337,323</u>
TOTAL OTHER ASSETS	242,153	341,681
<u>TOTAL NONCURRENT ASSETS</u>	<u>92,223,425</u>	<u>93,117,301</u>
<u>TOTAL ASSETS</u>	<u>\$ 94,242,670</u>	<u>\$ 95,040,797</u>
<u>DEFERRED OUT FLOW OF RESOURCES</u>		
Deferred Pension Contributions	\$ 1,148,609	\$ 1,073,242
Deferred OPEB	1,664,845	\$ 788,341
<u>TOTAL OUT FLOW OF RESOURCES</u>	<u>\$ 2,813,454</u>	<u>\$ 1,861,583</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
December 31, 2023
(with prior year data for comparison purposes only)

	<u>2023</u>	<u>2022</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable Trade	\$ 962,543	\$ 654,713
Other Accrued Liabilities	158,579	104,665
Accrued Interest	164,210	110,514
Customer Deposits	594,060	484,992
Line of Credit	123,801	113,837
Bonds Payable, Current	431,200	494,000
Notes Payable and Capital Leases, Current	<u>566,449</u>	<u>743,562</u>
TOTAL CURRENT LIABILITIES	3,000,842	2,706,283
<u>LONG-TERM LIABILITIES</u>		
Bonds Payable, Long-Term	11,890,000	12,630,896
KRWF	370,876	
Net Pension Liability	5,310,431	5,700,728
Net OPEB Liability	(114,261)	1,556,037
Leases, Long-Term	3,788,673	3,500,961
Advances For Construction	2,891,348	386,152
Less - Deferred Financing Cost	<u>(53,598)</u>	<u>(57,038)</u>
TOTAL LONG-TERM LIABILITIES	24,083,469	23,717,736
<u>TOTAL LIABILITIES</u>	<u>27,084,311</u>	<u>26,424,019</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Pension Investment Earnings	1,237,479	906,704
Deferred OPEB	<u>2,089,125</u>	<u>883,639</u>
	<u><u>3,326,604</u></u>	<u><u>1,790,343</u></u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	71,598,415	71,918,434
Restricted for:		
Construction	460,151	282,032
Depreciation, Maintenance and Replacement- Capital Assets	1,812,506	2,179,973
Customer Deposits	(154,964)	410,014
Sinking Fund	620,340	300,967
Unrestricted (Deficit)	<u>(8,699,757)</u>	<u>(6,403,402)</u>
<u>TOTAL NET POSITION</u>	<u>65,636,691</u>	<u>68,688,018</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023
(with prior year data for comparison purposes only)

	<u>2023</u>	<u>2022</u>
<u>OPERATING REVENUE</u>		
Metered Sales-Residential	\$6,527,527	\$6,885,947
Metered Sales-Commercial	940,304	706,757
Sewage Revenue	2,036,550	2,053,891
Metered Sales-Multi-Family	311,106	297,860
Metered Sales-Public Authorities	491,056	445,975
Other Water Service Revenue	218,811	228,012
Service Connection Fees	142,059	158,253
Metered Sales-Industrial	56,552	59,520
Fire Protection Revenue	1,500	1,500
<u>TOTAL OPERATING REVENUE</u>	10,725,465	10,837,715
<u>OPERATING EXPENSES</u>		
Depreciation	4,330,620	4,331,292
Water Purchased	1,106,938	1,206,560
Material and Supplies	1,118,552	668,191
Wages	2,525,183	2,464,044
Contract Service-Accounting	72,395	93,955
Education, Dues and Meetings	33,888	48,005
Employee Benefits	592,642	553,811
Contract Service-Legal Engineering	338,307	348,120
Easements	6,205	728
PSC Tax Assessment	14,103	15,770
Payroll Taxes	168,258	179,676
Retirement Expense	591,027	528,906
Settlement Fees	8,422	11,065
Sewage fees	53,895	57,789
Repairs and Maintenance	820,414	1,071,984
Utilities	1,378,087	1,642,777
Telephone Expense	55,252	48,850
Insurance	197,418	142,519
Advertising	16,487	2,105
Amortization Expense	3,440	3,440
<u>TOTAL OPERATING EXPENSE</u>	13,431,533	13,419,587
<u>OPERATING LOSS</u>	(2,706,068)	(2,581,872)
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Gain On Sale of Assets	26,450	4,000
Interest Income	74,515	8,494
Interest Expense	(454,772)	(361,650)
Bond Issue Cost		(89,980)
Rate Study	(151,638)	(52,510)
<u>TOTAL NON-OPERATING REVENUE (EXPENSES)</u>	(505,445)	(491,646)
<u>LOSS BEFORE CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION</u>	(\$3,211,513)	(\$3,073,518)

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023
(with prior year data for comparison purposes only)

	<u>2023</u>	<u>2022</u>
<u>CAPITAL CONTRIBUTIONS AND OTHER CHANGES</u>		
<u>IN NET ASSETS</u>		
Capital Contributions from:		
Government and State Grants	\$160,186	\$1,573,781
Customers through Tap-on Fees		<u>105,688</u>
<u>TOTAL CAPITAL CONTRIBUTIONS AND</u>		
<u>OTHER CHANGES IN NET POSITION</u>	<u>160,186</u>	<u>1,679,469</u>
<u>CHANGE IN NET POSITION</u>	<u>(3,051,327)</u>	<u>(1,394,049)</u>
<u>NET POSITION, BEGINNING OF YEAR</u>	<u>68,688,018</u>	<u>70,082,067</u>
SEE NOTE 3		
<u>NET POSITION, END OF YEAR</u>	<u>\$ 65,636,691</u>	<u>\$ 68,688,018</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with prior year data for comparison purposes only)

	<u>2023</u>	<u>2022</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Customers	\$10,712,079	\$10,773,644
Payment to Suppliers	(7,424,044)	(6,193,682)
Payment to Employees	(2,873,981)	(2,873,981)
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>414,054</u>	<u>1,705,981</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Increase		
Customer Deposits	<u>61,498</u>	<u>6,529</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Proceeds From Tap-On Fees	-	105,688
Payments for rate increase	(151,638)	
Government Grants	\$160,186	1,573,781
Advances for Construction	2,505,196	(2,294,584)
Purchases of Equipment	(671,360)	(7,260,258)
Construction in Progress	(1,255,179)	2,300,156
Loan and LOC Proceeds	745,380	5,465,693
Principal Payments	(1,198,564)	(1,982,372)
Interest Payments	(454,772)	(390,057)
Proceeds from Sale of Vehicles	<u>-</u>	<u>-</u>
<u>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</u>	<u>(320,751)</u>	<u>(2,481,953)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Income	<u>75,515</u>	<u>22,812</u>
<u>NET INCREASE IN CASH AND EQUIVALENTS AND RESTRICTED CASH</u>	<u>230,316</u>	<u>(746,631)</u>
<u>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR</u>	3,212,742	3,959,373
<u>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR</u>	<u>\$ 3,443,058</u>	<u>\$ 3,212,742</u>
Cash and Cash Equivalents	\$107,399	\$111,127
Total Restricted Cash	3,335,659	3,101,615
Combined	<u>\$3,443,058</u>	<u>\$3,212,742</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

"Continued"

(with prior year data for comparison purposes only)

	<u>2023</u>	<u>2022</u>
<u>RECONCILIATION OF OPERATING LOSS</u>		
<u>TO NET CASH PROVIDED BY</u>		
<u>OPERATING ACTIVITIES</u>		
Operating Loss	\$ (2,706,068)	\$ (2,851,872)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	4,330,620	4,331,292
Amortization	3,440	3,440
Increase (Decrease) in Provision for Uncollectible Accounts	-	-
Decrease (Increase) In:		
Customer Accounts Receivable	(13,386)	(230,035)
Other Accounts Receivable	-	-
Prepaid Expenses	18,727	(18,727)
Net Pension adjustment	(134,889)	105,713
Net OPEB adjustment	(1,341,316)	73,154
Inventory	(104,818)	(43,571)
Increase (Decrease) In:		
Accounts Payable Trade	307,830	357,157
Other Accrued Liabilities	53,914	(20,570)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 414,054</u>	<u>\$ 1,705,981</u>

NON-CASH CAPITAL AND RELATED FINANCINGS ACTIVITIES

During the period the District purchased Vehicles in exchange for long term debt.	<u>\$ 177,979</u>	<u> </u>
During the period the District completed certain construction projects that were transferred to capital assets.	<u>\$ 1,436,284</u>	<u>\$ 2,189,135</u>
Gain on Sale of Assets	<u>\$ -</u>	<u>\$ -</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The following is a summary of the more significant policies:

A. Organization

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

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

B. Reporting Entity

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

C. Basis of Presentation-Funds Accounting

The accounts of the District are organized on the basis of funds each of which is considered a separate accounting entity. The operations 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/Enterprises Funds

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

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 departure from generally accepted accounting principles. There were no unperformed contracts in process at year end which otherwise might have resulted in the need to encumber estimated expenditures.

G. Customer Accounts Receivable

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

H. Capital Assets

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

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

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

I. Bad Debts

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

J. Inventory

Inventory is valued at lower of cost or net realizable value on a First-In, First-Out Basis. December 31, 2023 and 2022 inventory balances were \$530,468 and \$425,650 respectively.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Cash and Cash Equivalents

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

As of December 31, 2023, cash and cash equivalents restricted cash consisted of the following:

	<u>2023</u>	<u>2022</u>
Petty Cash	\$ 320	320
Cash in Bank	107,679	110,807
Restricted Cash	<u>3,335,659</u>	<u>3,101,615</u>
Total	<u>\$ 3,443,858</u>	<u>\$3,212,792</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.

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.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Cash and Cash Equivalents

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

As of December 31, 2023, cash and cash equivalents restricted cash consisted of the following:

	<u>2023</u>	<u>2022</u>
Petty Cash	\$ 320	320
Cash in Bank	107,399	110,807
Restricted Cash	<u>3,335,659</u>	<u>3,438,938</u>
Total	<u>\$ 3,443,378</u>	<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.

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.

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 9 - PENSION PLAN

Plan description

The District participated in the District Employee Retirement Systems, a cost sharing multiple-employer Public Employee Retirement System, which covers its paid employees who have achieved at least one year, of service credit. For the fiscal year ended December 31, 2023 the District's covered payroll for nonhazardous positions was \$1,690,312. 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, 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% nonhazardous (6% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 26.95% nonhazardous (21.17% - pension, 5.78% insurance) of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

As of December 31, 2023, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2023. An expected total pension liability as of June 30, 2023 was determined using standard roll-forward techniques. The District proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2023.

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 9 - PENSION PLAN (CONTINUED)

For the year ended December 31, 2023, the District recognized pension expense of \$310,126 for nonhazardous. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Nonhazardous</u>		
Difference between expected actual experience	\$ 274,911	\$ 14,430
Changes in assumptions..	-0-	486,705
Net difference between projected and actual earnings on investments...	573,677...	...646,114
Changes in proportion and differences between District District contributions and proportionate share of contributions	169,984	92,230
District contributions subsequent to The measurement date	<u>129,737</u>	<u> </u>
TOTAL	<u>\$ 1,148,309</u>	<u>.\$1,239,479</u>

At December 31, 2023, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of 129,737. These contributions will be recognized as a reduction of the net pension liability during the year ended December 31, 2023.

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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 9 - PENSION PLAN (CONTINUED)

Year ending December 31:	
2024	\$ (165,150)
2025	(120,896)
2026	118,550
2027	<u>(51,410)</u>
TOTAL	<u>\$ (218,906)</u>

Actuarial Methods and Assumptions

Total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2022. The financial reporting actuarial valuation as of June 30, 2022, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market
value of assets	and the expected actuarial value of assets is
recognized	
Amortization Method	Level Percent of Pay
Amortization Period	26 years, closed
Payroll Growth Rate	2.00%
Investment Return	6.25%
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service for
nonhazardous	3.05% to 18.55%, varies by service for
hazardous	
Mortality	RP-2000 Combined Mortality Table,
projected to 2013	with Scale BB (set back 1 year for females)

There have been no changes in plan provisions since June 30, 2021. However, the Board of Trustees has adopted new actuarial assumptions since June 30, 2021. These assumptions are documented in the report titled "Kentucky Retirement Systems 2022 Actuarial Experience Study for the Period Ending June 30, 2022". The total pension liability as of June 30, 2022 is determined using these updated assumptions.

The long-term expected rate of return was determined by using a building block method in which the best estimate ranges of expected future real rates of returns are developed

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 11 - PENSION PLAN (CONTINUED)

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 system.

These ranges are 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 by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Nominal Rate of Return</u>
US Equity	21.75%	5.70%
Non-U.S Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Opportunistic	0.00%	0.00%
Real Estate	10.00%	5.40%
Opportunistic	00.00%	0.00%
Real Return	10.00%	4.55%
Cash Equivalent	<u>1.50%</u>	<u>0.00%</u>
TOTAL	<u>100.00 %</u>	<u>34.5%</u>

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 investments earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 9 - PENSION PLAN (CONTINUED)

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:

Current 1% Decrease <u>(5.5%)</u>	Discount Rate <u>(6.5%)</u>	1% Increase <u>(7.5%)</u>
<u>\$6,704,740</u>	<u>\$5,310,431</u>	<u>\$4,151,708</u>

Benefits: The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. 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. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Contributions: Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District's contractually required contribution rate for the year ended December 31, 2023 was .006% of covered payroll. Contributions to the Insurance Fund from the District were \$118,688 for the year ended December 31, 2023. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The District 's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2023. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2023, the District's proportion for the nonhazardous was .082758%.

OPEB Liability: For the period ending December 31, 2023, the Board reported a liability of \$(114,261) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2023, 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, 2023, the District recognized OPEB expense of \$118,688 for nonhazardous in total. The District also reported deferred outflows of recourses and deferred inflows of resources related to pensions as the following:

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

	Deferred Outflows Of Resources	Deferred Inflows
Nonhazardous		
Liability Experience	\$ 79,657	\$1,622,395
Difference between expected actual experience	213,835	
Changes in assumptions	224,858	156,704
Net difference between projected and actual earnings on investments		240,353
Changes in proportion and differences between District contributions and proportionate share of contributions	77,765	69,673
District contributions subsequent to The measurement date	<u>1,068,730</u>	
TOTAL	<u>\$ 1,664,845</u>	<u>\$2,089,125</u>

Net OPEB Liability: The District 's net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (CONTINUED)

Actuarial Assumptions and Methods

Total pension liability for CERS was determined by actuarial valuation as of December 31, 2023 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Salary Increases	3.05 percent, average, including inflation
Investment Rate of Return	6.25 percent, net of pension plan investment expense, including inflation

For mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For the healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and the margin will be reviewed again, when the next experience investigation is conducted.

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (CONTINUED)

asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

	<u>Target Allocation</u>	<u>Long Term Nominal Rate of Return</u>
US Equity	21.75%	5.70%
Special Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Non-US Equity	21.75%	6.35%
Opportunistic	0.00%	0.00%
Private Equity	10.00%	9.70%
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Cash Equivalent	<u>1.50%</u>	<u>-.60%</u>
TOTAL	<u>100.00 %</u>	<u>34.5%</u>

Discount Rate

The discount rates used to measure the total net OPEB liability were 5.3% nonhazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(CONTINUED)

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (CONTINUED)

actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (25 year as of June 30, 2018).

Sensitivity of the Board's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the net OPEB liability calculated using the discount rates of 5.68%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower, (4.84%), or 1 percentage point higher, (6.84%), than the current rate:

	<u>1% Decrease</u> <u>(4.85%)</u>	<u>Discount Rate</u> <u>(5.85%)</u>	<u>1% Increase</u> <u>(6.85%)</u>
Greenup's Share			
Of the net			
pension liability	<u>\$214,228</u>	<u>\$(114,261)</u>	<u>\$(389,495)</u>

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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

4. CUSTOMER DEPOSIT FUND

Deposits required from customers when they sign up for the water service are deposited into the customer deposit escrow account. When services are terminated or a customer has paid in a timely fashion, a refund of the deposit plus interest is given after a year of water service. Customer deposits as of December 31, 2023 and December 31, 2022 were \$594,060 and \$484,992 respectively, and are currently held in escrow.

5. 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.

6. RECLASSIFICATIONS

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

7. SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 17, 2024 the date the financial statements were available to be issued.

8. RESTRICTED ASSETS AND RESERVE NET POSITION

Each of the proprietary funds has a portion of its net assets restricted in connection with assets restricted in uses, such as bond interest and redemption, depreciation, and customer deposits. Restricted net assets includes excess of restricted cash over liabilities payable from restricted cash.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

9. DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2023, the carrying amount of the District's deposits with financial institutions was \$3,442,998. The Bank balance is collateralized as follows:

Amount insured by FDIC	\$ 750,000
Amount collateralized by securities held by third party trust company in the District's name	<u>2,158,438</u>
<u>Total Bank Balance</u>	<u>\$ 2,908,438</u>

Pledged collateral was obtained for amounts up to \$2,003,682 for money on deposit at Community Trust Bank in the name of the District. Pledged collateral was obtained for accounts up to \$154,756 for money on deposit with BB&T and Community Trust Bank in the name of the District.

10. CAPITAL ASSETS

The following is a summary of changes in fixed asset:

	Balance January 1, <u>2023</u>	<u>Additions</u>	<u>Dispositions</u>	Balance December 31, <u>2023</u>
Description				
Supply & Pumping	\$5,713,544	\$ -0-	\$ -0-	\$5,713,544
Water Treatment Equipment	10,165,318	51,037	-0-	10,216,355
Transmission & Distribution	96,978,677	9,942	-0-	96,988,619
General Plant	6,585,444	-0-	-0-	6,858,444
Land and Land Rights	580,874	34,624	-0-	615,498
Sewer Utility Plant	46,958,924	575,757	-0-	47,534,681
Sewer General Plant	<u>957,215</u>	<u>-0-</u>	<u>-0-</u>	<u>957,215</u>
Totals	167,939,996	671,360	-0-	168,611,356
Accumulated Depreciation	<u>(78,662,793)</u>	<u>(4,291,820)</u>	<u>-0-</u>	<u>(82,954,613)</u>
Net Utility Plant	<u>\$89,277,203</u>	<u>\$ (3,630,460)</u>	<u>\$ -0-</u>	<u>\$85,656,743</u>
	January 1, <u>2022</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2022</u>
Description				
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
Land and Land Rights	577,154	3,720	-0-	580,874
Sewer Utility Plant	45,396,468	1,562,456	-0-	46,958,924
Sewer General Plant	<u>954,098</u>	<u>3,117</u>	<u>-0-</u>	<u>957,215</u>
Totals	165,169,987	2,189,135	-0-	167,939,996
Accumulated Depreciation	<u>(74,331,501)</u>	<u>(4,331,292)</u>	<u>-0-</u>	<u>(78,662,793)</u>
Net Utility Plant	<u>\$91,415,640</u>	<u>\$ (2,142,157)</u>	<u>\$ -0-</u>	<u>\$89,277,203</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

10. CAPITAL ASSETS (Continued)

Depreciation expense was \$4,291,820 and \$4,331,292 for the years ended December 31, 2023 and 2022, respectively.

11. CONSTRUCTION FUNDS

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

	<u>2023</u>	<u>2022</u>
Big Creek Sewer Coal Settlement	\$5,401	\$ 5,401
John Creek Project	248,157	100
District Wide Tap Fees	47,485	26,629
Misc. Line Extension	2,301	69,725
PCFC Projects	81,458	81,458
Phelps Sewer Project	5,592	5,372
Belfry Pond Sewer Project	2,837	2,837
Repair and Maintenance Reimbursement	1,402	3,399
Restricted ARPA Funding	59,964	78,537
Various Misc. projects	3,554	8,574
<u>Total Construction Funds</u>	<u>\$ 459,151</u>	<u>\$ 282,032</u>

12. RESTRICTED ASSETS AND RESERVE NET POSITION

As of December 31 ,2023 and 2022 restricted cash were as follows:

	<u>2023</u>	<u>2022</u>
Depreciation Reserve	\$ 883,618	\$ 863,039
Sinking Fund	620,340	587,220
Customer Deposit Escrow Account	439,096	391,526
Operation & Maintenance reserve	37,187	100,060
Waste Water O & M Reserve	891,701	871,618
Recycling Account	3,566	6,120
Construction Account	460,151	282,032
<u>Total Restricted Cash</u>	<u>\$3,335,659</u>	<u>\$3,101,615</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

13. RESTRICTED ASSETS AND RESERVE NET ASSETS Continued)

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

	Maximum Required Balance	Required Balance at <u>12/31/23</u>	Actual Balance At <u>12/31/23</u>
Depreciation Reserve Funds	\$852,060	\$ 852,060	\$ 883,618
Repairs and Maintenance Funds	\$ 1,296,794	<u>882,868</u>	<u>928,888</u>
Total		<u>\$1,734,928</u>	<u>\$1,812,506</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 2023.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

14. CONSTRUCTION IN PROGRESS

Mountain Water District has overseen several construction projects. As of December 31, 2023 and 2022, the following projects were in progress.

	<u>2023</u>	<u>2022</u>
<u>Water Projects</u>		
ENG	\$ 68,199	\$ -0-
ARPA Local	82,853	-0-
Brushy	1,864,732	-0-
Dot Eng	33,016	-0-
Kellogg Contractor	61,896	-0-
Various In House Projects	604,602	192,844
<u>Sewer Projects</u>		
Phelps	135,540	-0-
Coal Severance	43,000	-0-
Henry Clay	95,032	203,958
Various In House Projects	-0-	-0-
<u>Total Construction in Progress</u>	<u>\$ 2,988,870</u>	<u>\$ 396,802</u>

15. BONDS PAYABLE

	<u>2023</u>	<u>2022</u>
Fedscreek Project		
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.	\$ 518,000	\$537,000
Radio Read Project		
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.	2,973,200	3,033,000
Belfry		
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.	3,515,000	3,584,500

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

16. BONDS PAYABLE (Continued)

Kentucky Rural Water Fund

The 5.2 revenue bonds issued January 2022 in 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 for all Water Revenue from System

	<u>\$ 5,315,000</u>	<u>\$ 5,970,396</u>
Total bonds	\$12,321,200	\$ 13,124,896
Less current portion	<u>(431,200)</u>	<u>(494,000)</u>
Long Term Bonds Payable	<u>\$11,890,000</u>	<u>\$12,630,896</u>

Maturities of these long-term bonds are as follows:

December 31	<u>Principal</u>	<u>Interest</u>
2024	431,200	776,160
2025	449,600	768,816
2026	467,500	733,975
2027	480,000	720,000
2028	487,900	705,800
2029-2033	2,348,500	2,348,499
2034-2038	2,174,100	2,174,099
2039-2043	1,764,100	758,563
2044-2048	1,198,800	251,748
2049-2053	1,029,300	133,809
2054-2058	967,200	77,376
2059-2063	523,000	15,690
	<u>\$12,321,200</u>	<u>\$9,464,535</u>

17. NOTES PAYABLE AND CAPITAL LEASES

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.

<u>2023</u>	<u>2022</u>
-0-	253,433

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

17. NOTES PAYABLE AND CAPITAL LEASES (Continued)

	<u>2023</u>	<u>2022</u>
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 through the year 2023, secured by water revenue from the system.	16,776	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	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.	10,136	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.	146,341	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.	2,656,921	2,823,665
Kentucky Infrastructure Authority-A16-079 The .75% note issued June 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.	214,237	228,698

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2023 AND 2022

,17 NOTES PAYABLE AND CAPITAL LEASES (Continued)

	<u>2023</u>	<u>2022</u>
<u>Community Trust Bank</u> A lease purchase agreement, original balance \$29,711; at 3.043% interest; secured by vehicles; payment are \$658 for 48 months maturing Oct. 2025.	14,608	21,995
<u>Community Trust Bank</u> A purchase agreement, original balance \$39,001 at 3% interest, secured by vehicle; payments are \$1,106 for 48 months, maturing Jan. 2025.	26,750	39,001
<u>Community Trust Bank</u> A lease purchase agreement, original balance \$58,892; at 3.041% interest; secured by a vehicle; payments are \$1,304 for 48 months maturing Nov. 2025.	41,057	43,617
<u>Community Trust Bank</u> A purchase agreement, original balance \$21,219 at 3% interest, secured by vehicle; payments are \$1,602 for 48 months, maturing Jan. 2025.	15,454	21,116
<u>Community Trust Bank</u> A lease purchase agreement, original balance \$51,500; at 3% interest; secured by a vehicle; payments are \$1,141 for 48 months maturing in Nov, 2025.	26,529	38,162
<u>Community Trust Bank</u> A purchase agreement, original balance \$53,433 at 3.25% interest, secured by vehicle; payments are \$1,189 for 48 months, maturing Nov, 2025.	15,892	23,945
<u>Community Trust Bank</u> A purchase agreement, original balance \$30,021 at 3.043% interest, secured by vehicle; payments are \$665 for 48 months, maturing Oct. 2024.	14,739	22,204

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

17. NOTES PAYABLE AND CAPITAL LEASES (Continued)

	<u>2023</u>	<u>2022</u>
<u>Community Trust Bank</u> A purchase agreement, original balance \$23,799 at 3.043% interest, secured by vehicle; payments are \$598 for 48 months, maturing Oct. 2025.	14,784	22,247
<u>Community Trust Bank</u> A purchase agreement, original balance \$76,250 at 3.04% interest, secured by vehicle; payments are \$1,689 for 48 months, maturing Nov, 2025.	39,279	56,502
<u>Community Trust Bank</u> A purchase agreement, original balance \$76,250 at 3.04% interest, secured by vehicle; payments are \$1,601 for 48 months, maturing Jan 2026.	14,554	21,219
<u>Community Trust Bank</u> A purchase agreement, original balance \$21,219 at 3.04% interest, secured by vehicle; payments are \$1,601 for 48 months, maturing Jan 2026.	13,951	21,219
<u>Community Trust Bank</u> 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.	8,695	17,135
<u>Community Trust Bank</u> 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.	7,980	17,135
<u>Community Trust Bank</u> 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.	7,914	16,379

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

,17. NOTES PAYABLE AND CAPITAL LEASES (Continued)

	<u>2023</u>	<u>2022</u>
<u>Community Trust Bank</u>		
A purchase agreement, original balance \$39,347 at 3.020% interest, secured by vehicle; payments are \$872 for 48months, Balloon Pmt. on May 2025.	14,411	23,456
<u>Community Trust Bank</u>		
A purchase agreement, original balance \$76,250 at 3% interest, secured by vehicle; payments are \$1,689 for 48 months, maturing Nov, 2025.	15,552	22,675
<u>Community Trust Bank</u>		
A purchase agreement, original balance \$28,721 at 3.04% interest, secured by vehicle; payments are \$1637 for 48 months, maturing Jan 2026.	15,398	-0-
<u>Community Trust Bank</u>		
A purchase agreement, original balance \$52,235 at 7.6% interest, secured by vehicle; payments are \$1,689 for 48 months, maturing Apr, 2027.	44,649	-0-
<u>LOC Fema</u>		
Commitment	344,015	-0-
<u>KIA</u>		
Loan F-01-07	35,450	-0-
<u>Mule</u>		
A purchase agreement, original balance \$18,842 at 7.7% interest, secured by vehicle; payments are \$850 for 48 months, maturing Mar., 2025.	11,352	-0-
<u>EKSAFE</u>		
Note Payable EKSAFE State Funding for Emergencies. \$247,896 has been received as of Dec. 31, 2023.	247,896	-0-

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

17. NOTES PAYABLE AND CAPITAL LEASES (Continued)

	<u>2023</u>	<u>2022</u>
<u>Community Trust Bank</u>		
A purchase agreement, original balance \$76,250 at 3% interest, secured by vehicle; payments are \$1,689 for 48 months, maturing Nov, 2025.	33,427	-0-
<u>Community Trust Bank</u>		
A purchase agreement, original balance \$76,250 at 3% interest, secured by vehicle; payments are \$1,689 for 48 months, maturing Nov, 2025.	23,720	-0-
<u>DUMP TRUCK</u>		
<u>Community Trust Bank</u>		
A purchase agreement, original balance \$76,250 at 3.25% interest, secured by vehicle; payments are \$1,689 for 48 months, maturing Oct, 2024.	9,787	22,460
<u>Community Trust Bank</u>		
Boost Station Relocation	<u>147,463</u>	<u>180,868</u>
Total Notes Payable and Capital Leases	4,355,122	4,244,522
Less current portion	<u>(566,449)</u>	<u>(743,562)</u>
Total Long-term Portion	<u>\$ 3,788,673</u>	<u>\$3,500,960</u>

Maturity of the notes payable and capital leases are as follows:

	<u>Principal</u>	<u>Interest</u>
2024	566,449	33,986
2025	337,507	16,875
2026	322,403	12,896
2027	330,000	16,500
2028	335,000	16,750
2029-2033	1,065,980	71,290
2034-2038	954,899	38,819
2039-2043	347,664	3,477
2044-2048	<u>95,220</u>	<u>2,380</u>
	<u>\$ 4,355,122</u>	<u>\$ 212,973</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

18. ADVANCES FOR CONSTRUCTION

	<u>2023</u>	<u>2022</u>
<u>Water Projects</u>		
ARPA	\$ 642,379	\$ 127,935
Brushy	1,864,732	-0-
KDOT KELLOGS	50,852	
SEE PHI	60,594	120,185
 <u>Sewer Projects</u>		
Phelps Waste Water		
Kentucky Infrastructure Authority	134,864	-0-
Henry Clay Sewer Projects:	138,032	138,032
 <u>Total Advances for Construction</u>	 <u>\$2,891,453</u>	 <u>\$ 386,152</u>

MOUNTAIN WATER DISTRICT
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY

PENSION	06/30/2022 12/31/2022 NH	06/30/2021 12/31/2021 NH	06/30/2020 12/31/2020 NH	06/30/2019 12/31/2019 NH	06/30/2018 12/31/2018 NH
Prop NPL	0.078859%	0.083070%	0.085027%	0.08444%	0.08172% for the 6/30 valuation
Prop Share of NPL	5,700,728	5,296,364	6,521,501	5,938,492	4,976,000 for the 6/30 valuation
Payroll	2,296,964	2,264,929	2,116,759	2,286,000	2,081,000 for the 6/30 valuation
Share of NPL as % of Payroll	248.19%	233.84%	308.09%	259.78%	239.12% for the 6/30 valuation
Plan Fiduciary net Position as % of TPL	52.42%	47.81%	50.45%	53.54%	53.54% for the 6/30 valuation
Contractually required Contribution	530,908	409,513	420,346	502,000	524,000 calendar year end
Actual Contribution	(530,908)	(409,513)	(420,346)	(502,000)	(524,000) calendar year end
Contribution Deficiency (excess)	-	-	-	-	- calendar year end
Payroll	2,296,964	2,264,929	2,116,759	2,286,000	2,081,000 calendar year end
Contributions as % Of payroll	23%	18%	20%	22%	25% calendar year end

MOUNTAIN WATER DISTRICT
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS

OPEB	06/30/2022 12/31/2022 NH	06/30/2021 12/31/2021 NH	06/30/2020 12/31/2020 NH	PLAN VALUATION DATE CALENDAR YEAR
Prop Net OPEB Liability	0.078646%	0.083051%	0.085020%	for the PY valuation date
Prop share of net OPEB liability	1,556,037	1,589,970	2,052,540	for the PY valuation date
Payroll	2,296,964	2,264,929	2,116,759	for the PY valuation date
Share of NOPL as % Of payroll	67.74%	70.20%	96.96%	for the PY valuation date
Plan fiduciary net Position as % of TOL	60.95%	62.90%	51.67%	for the PY valuation date
Contractually required Contribution	155,501	148,010	146,388	for calendar year end
Actual contribution	(155,501)	(148,010)	(146,388)	for calendar year end
Contribution deficiency (excess)	-	-	-	for calendar year end
Payroll	2,296,964	2,264,929	2,116,759	for calendar year end
Contributions as % Of payroll	6.77%	6.53%	6.92%	for calendar year end

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
Mountain Water District
Pikeville, KY

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 governmental activities, the business-type activities, of Mountain Water District as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Mountain Water District's basic financial statements, and have issued our report thereon dated September 19, 2024

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.

My 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.

Richard F. Paulmann, CPA, LLC

