

MUHLENBERG COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2021 AND 2020

**MUHLENBERG COUNTY WATER DISTRICT
TABLE OF CONTENTS**

Independent Auditors' Report	1
Management's Discussion and Analysis	4
Financial Statements	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	15
Notes to Financial Statements	17
Required Supplementary Information	
Defined Benefit Plan	
Schedule of Proportionate Share of Net Pension Liability	46
Schedule of Employer Pension Contributions	47
Notes to Required Supplementary Information – Pension Plan	48
Other Post-Employment Benefits (OPEB)	
Schedule of Proportionate Share of Net OPEB Liability	49
Schedule of Employer OPEB Contributions	50
Notes to Required Supplementary Information – OPEB	51
Internal Control and Compliance	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52
Schedule of Findings and Responses	54

SANDRA D. DUGUID, CPA
ANNA B. GENTRY HERR, CPA, CFE

WALTER G. CUMMINGS, CPA
MEREDITH D. MORRIS, CPA



DUGUID, GENTRY & ASSOCIATES, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

4443 CANTON PIKE
HOPKINSVILLE, KY 42240

270.886.6355

INDEPENDENT AUDITORS' REPORT

To the Commissioners
Muhlenberg County Water District
Greenville, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Muhlenberg County Water District as of and for the years ended December 31, 2021 and 2020, and the related notes to the 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 Muhlenberg County Water District as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Muhlenberg County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Muhlenberg County 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.

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Muhlenberg County 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 Muhlenberg County 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 the pension and post-employment benefit schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 August 2, 2022, on our consideration of Muhlenberg County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to solely 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 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 Muhlenberg County Water District's internal control over financial reporting and compliance.

Duguid, Gentry & Associates, PSC

Duguid, Gentry & Associates, PSC

Certified Public Accountants
Hopkinsville, Kentucky

August 2, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MUHLENBERG COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

The management of Muhlenberg County Water District offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2021. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

- The total assets and deferred outflows of resources of the Muhlenberg County Water District exceeded its liabilities and deferred inflows of resources at the close of the 2021 year by \$5,325,381 (net position). Of this amount, (\$382,070) represents the unrestricted net position.
- The District's total net position increased by \$237,882. Normal operating and non-operating activities increased the District's net position by \$219,282. Capital contributions and grants increased net position by \$18,600.
- The District's total long-term debt – bonds, notes payable, net pension and OPEB liability decreased by \$851,569 from the prior year. In the statement of net position, long-term bonds are presented inclusive of deferred premium costs totally \$16,349.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: (1) basic financial statements and (2) notes to basic financial statements. The basic financial statements and notes to these statements reflect the accounts and activities of the District.

Required Financial Statements

The financial statements of the District report information utilizing the full accrual basis of accounting. This method of accounting recognizes revenues when earned instead of when received and recognizes expenses when incurred rather than when paid. The financial statements conform to accounting principles, which are generally accepted in the United States of America.

Statement of Net Position

The Statement of Net Position includes information on the District's assets and deferred outflows and the District's liabilities and deferred inflows with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**MUHLENBERG COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

Statement of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year end, the Statement of Revenues, Expenses and Changes in Net Position presents the results of the District's operations over the course of the operating cycle. This statement can be used to determine whether the District has successfully recovered all of its actual costs including depreciation through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the time of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and delayed payment of current year expenses.

Statement of Cash Flows

The Statement of Cash Flows provides information on the District's cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the operating cycle.

Financial Analysis of the Year Ended December 31, 2021

Over the past year, total assets and deferred outflows of the District decreased by \$107,905 while total liabilities and deferred inflows decreased by \$345,787. For the current period, the operating income of the District totaled \$178,822.

Condensed Statements of Net Position

The Statement of Net Position, shown in tabular format below, represents information on all of the District's assets and deferred outflows and the District's liabilities and deferred inflows with the difference between them reported as net position. The District's total net position increased in the current year by \$237,882 or 4.68%.

Our analysis that follows focuses on the District's net position (shown in Tables 1-3) and the changes in components of net position (shown in Table 4) during the year.

**MUHLENBERG COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

Analysis of Net Position

To better understand the District's actual financial positions and its ability to deliver services in future periods, the reader will need to review the various components of the net position category and obtain an understanding of how each related specifically to the business activities that we perform. For example, \$5,147,393 or 96.66% of net position represents investment in plant assets, which is the lifeblood to the provision of water services. Another portion of net position, \$560,058 or 10.52% represents funds set aside for payment of debt, refunding of customer deposits and capital purchases.

**TABLE 1
Condensed Statements of Net Position**

	2021	2020	Change in FY 2020 to FY 2021	
			Amount	Percent
ASSETS				
Current and other assets	\$ 3,080,160	\$ 2,710,507	\$ 369,653	13.64%
Capital assets, net	<u>6,173,741</u>	<u>6,506,930</u>	<u>(333,189)</u>	-5.12%
Total assets	<u>9,253,901</u>	<u>9,217,437</u>	<u>36,464</u>	0.40%
Deferred outflows of resources	<u>498,978</u>	<u>643,347</u>	<u>(144,369)</u>	-22.44%
LIABILITIES				
Long-term debt	3,075,334	3,871,903	(796,569)	-20.57%
Current and other liabilities	<u>735,411</u>	<u>731,486</u>	<u>3,925</u>	0.54%
Total liabilities	<u>3,810,745</u>	<u>4,603,389</u>	<u>(792,644)</u>	-17.22%
Deferred inflows of resources	<u>616,753</u>	<u>169,896</u>	<u>446,857</u>	263.02%
NET POSITION				
Net investment in capital assets	5,147,393	5,172,501	(25,108)	-0.49%
Restricted	560,058	553,211	6,847	1.24%
Unrestricted	<u>(382,070)</u>	<u>(638,213)</u>	<u>256,143</u>	-40.13%
Total net position	<u>\$ 5,325,381</u>	<u>\$ 5,087,499</u>	<u>\$ 237,882</u>	4.68%

**MUHLENBERG COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

**TABLE 2
Net Investment in Capital Assets**

	2021	2020
Net investment in capital assets		
Capital assets, net of depreciation	\$ 6,173,741	\$ 6,506,930
Less revenue bonds payable	(1,010,000)	(1,305,000)
Less unamortized bond premium	(16,348)	(29,429)
Total	\$ 5,147,393	\$ 5,172,501

**TABLE 3
Restricted Net Position**

	2021	2020
Net position restricted		
Depreciation fund	\$ 262,816	\$ 215,783
Payment and escrow funds	298,699	363,004
Customer deposit cash and equipment upgrades	225,147	205,842
Customer deposits	(203,620)	(201,960)
Accrued interest payable	(22,984)	(29,458)
Total	\$ 560,058	\$ 553,211

Customer deposits

Customer deposits for utility services are segregated and invested on a short-term basis. At December 31, 2021, customer deposits of \$207,371 (including \$3,751 inactive deposits) were deposited in an interest bearing account in Old National Bank for the purpose of refunding customer deposits.

Equipment Upgrades

At December 31, 2021, the District had \$926 of monies restricted for funding the purchase and repayment of debt related to automated meters that were installed during 2014.

Government Assessment

At December 31, 2021, the District had \$16,850 of monies restricted under a Muhlenberg County Fiscal Court assessment on the District's customers for the Muhlenberg County emergency operations system (911).

**MUHLENBERG COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

**TABLE 4
Components of Net Position**

	2021	2020	Change in FY 2020 to FY 2021	
			Amount	Percent
REVENUES				
Metered water sales	\$ 3,694,374	\$ 3,605,943	\$ 88,431	2.45%
Other operating revenues	280,134	248,062	32,072	12.93%
Other water sales	136,477	134,642	1,835	1.36%
Capital grants and contributions	18,600	16,530	2,070	12.52%
Investment income	1,236	13,138	(11,902)	-90.59%
Total revenues	4,130,821	4,018,315	112,506	2.80%
EXPENSES				
Administrative and general expenses	1,202,357	1,424,419	(222,062)	-15.59%
Source of supply purchases	1,421,482	1,318,612	102,870	7.80%
Depreciation and amortization	462,920	475,625	(12,705)	-2.67%
Transmission and distribution expenses	417,586	428,457	(10,871)	-2.54%
Customer accounts expense	172,868	168,312	4,556	2.71%
Pumping expenses	131,314	126,285	5,029	3.98%
Payroll and other taxes	68,787	68,937	(150)	-0.22%
Interest on debt and other	50,876	64,580	(13,704)	-21.22%
Water treatment	17,324	24,985	(7,661)	-30.66%
Bad debts	24,445	13,297	11,148	83.84%
(Gain) Loss on equipment disposal	(77,020)	(14,441)	(62,579)	433.34%
Total expenses	3,892,939	4,099,068	(206,129)	-5.03%
Changes in net position	237,882	(80,753)	318,635	394.58%
Net position, beginning of year	5,087,499	5,168,252	(80,753)	-1.56%
Net position, end of year	\$ 5,325,381	\$ 5,087,499	\$ 237,882	4.68%

Metered water sales increased by \$88,431 or 2.45% due to an increase in residential sales.

Administrative and general expenses decreased by \$222,062 due to decreases in annual reconciliation of GASB 68 (pension) and GASB 75 (OPEB) actuarial valued accounts.

**MUHLENBERG COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

**TABLE 5
Capital Asset**

	<u>2021</u>	<u>2020</u>
Capital assets not depreciated		
Land and land rights	<u>\$ 39,752</u>	<u>\$ 39,752</u>
Total nondepreciable historical cost	<u>39,752</u>	<u>39,752</u>
Capital assets depreciated		
Plant and facilities	14,508,456	14,508,456
Buildings	913,693	891,245
Vehicles and equipment	1,169,642	1,117,395
Office furniture and equipment	<u>288,433</u>	<u>288,433</u>
Total depreciable historical cost	<u>16,880,224</u>	<u>16,805,529</u>
Total capital assets	16,919,976	16,845,281
Less accumulated depreciation	<u>(10,746,235)</u>	<u>(10,338,351)</u>
Total capital assets, net	<u>\$ 6,173,741</u>	<u>\$ 6,506,930</u>

Major capital asset transaction and events during the fiscal year included:

- Purchase of four new vehicles - \$150, 639
- General equipment - \$23,400
- Facilities improvements - \$28,653

Long-term Debt

As of December 31, 2021, the District had total debt of \$1,010,000 before deferred unamortized premium of \$16,349. No new debt was incurred during the year.

**TABLE 6
Long-term debt**

	<u>2021</u>	<u>2020</u>
Revenue bonds payable	<u>\$ 1,010,000</u>	<u>\$ 1,305,000</u>
Plus unamortized premiums	<u>16,349</u>	<u>29,429</u>
Total	<u>\$ 1,026,349</u>	<u>\$ 1,334,429</u>

Additional information on the District's long-term debt is provided in Note 5 of the financial statements.

**MUHLENBERG COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Muhlenberg County Water District's General Manager at P.O. Box 348, Greenville, Kentucky 42345 or call (270) 338-1300.

FINANCIAL STATEMENTS

**MUHLENBERG COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020**

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,536,210	\$ 1,128,431
Accounts receivable and unbilled revenues	634,069	658,371
Other receivables	2,433	6,036
Allowance for uncollectible accounts	(26,688)	(18,869)
Inventory	129,003	107,510
Prepaid expenses	18,471	44,399
Total current assets	2,293,498	1,925,878
Restricted assets		
Cash - depreciation reserve account	82,075	35,782
Cash - bond escrow fund	298,699	363,005
Cash - customers' deposits	207,371	204,916
Cash - equipment upgrades	926	926
Cash - government assessment	16,850	-
Investments	180,741	180,000
Total restricted assets	786,662	784,629
Capital assets not being depreciated		
Land and land rights	39,752	39,752
Capital assets being depreciated		
Water supply and distribution system	6,133,989	6,467,178
Total capital assets	6,173,741	6,506,930
Total assets	9,253,901	9,217,437
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related	293,117	308,223
Pension related	205,861	335,124
Total deferred outflows of resources	498,978	643,347

See accompanying notes to the financial statements

**MUHLENBERG COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION, continued
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	<u>268,807</u>	<u>205,068</u>
Total current liabilities	<u>268,807</u>	<u>205,068</u>
Current liabilities payable from restricted assets		
Customers' deposits	203,620	201,960
Interest payable	22,984	29,458
Long-term debt - current portion	<u>240,000</u>	<u>295,000</u>
Total payable from restricted assets	<u>466,604</u>	<u>526,418</u>
Noncurrent liabilities		
Long-term debt (net of unamortized premiums)	786,349	1,039,429
Net OPEB liability	528,503	678,071
Net pension liability	<u>1,760,482</u>	<u>2,154,403</u>
Total noncurrent liabilities	<u>3,075,334</u>	<u>3,871,903</u>
Total liabilities	<u>3,810,745</u>	<u>4,603,389</u>
DEFERRED INFLOWS OF RESOURCES		
OPEB related	278,118	130,118
Pension related	<u>338,635</u>	<u>39,778</u>
Total deferred inflows of resources	<u>616,753</u>	<u>169,896</u>
NET POSITION		
Net investment in capital assets	5,147,393	5,172,501
Restricted	560,058	553,211
Unrestricted	<u>(382,070)</u>	<u>(638,213)</u>
Total net position	<u>\$ 5,325,381</u>	<u>\$ 5,087,499</u>

See accompanying notes to the financial statements

**MUHLENBERG COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water sales	\$ 3,830,851	\$ 3,740,585
Other revenues	<u>280,134</u>	<u>248,062</u>
Total operating revenues	<u>4,110,985</u>	<u>3,988,647</u>
OPERATING EXPENSES		
Administrative and general expenses	1,202,357	1,424,419
Source of supply purchases	1,421,482	1,318,612
Depreciation	476,000	501,421
Transmission and distribution expenses	417,586	428,457
Customer accounts expense	172,868	168,312
Pumping expenses	131,314	126,285
Payroll and other taxes	68,787	68,937
Water treatment	17,324	24,985
Bad debts	<u>24,445</u>	<u>13,297</u>
Total operating expenses	<u>3,932,163</u>	<u>4,074,725</u>
Operating income	<u>178,822</u>	<u>(86,078)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,236	13,138
Gain (loss) on disposal of assets	77,020	14,441
Interest on debt	(48,356)	(61,128)
Debt amortization	13,080	25,796
Other interest expense	<u>(2,520)</u>	<u>(3,452)</u>
Total nonoperating revenue (expense)	<u>40,460</u>	<u>(11,205)</u>
Income (loss) before grants and capital contributions	219,282	(97,283)
Grants and capital contributions	<u>18,600</u>	<u>16,530</u>
Change in net position, carried forward	<u>237,882</u>	<u>(80,753)</u>

See accompanying notes to the financial statements

**MUHLENBERG COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, continued
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Change in net position, brought forward	237,882	(80,753)
Net position, beginning of year	5,087,499	5,168,252
Net position, end of year	\$ 5,325,381	\$ 5,087,499

See accompanying notes to the financial statements

**MUHLENBERG COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Receipts from customers and users	\$ 4,146,708	\$ 3,904,396
Cash payments to suppliers for goods and services	(1,958,581)	(1,674,182)
Cash payments to employees	<u>(1,380,009)</u>	<u>(1,756,510)</u>
Net cash provided by operating activities	<u>808,118</u>	<u>473,704</u>
Cash flows from capital and related financing activities		
Contributed capital	18,600	16,529
Acquisition of property, plant and equipment	(202,692)	(239,204)
Proceeds from equipment disposal	136,901	92,913
Principal paid on debt	(295,000)	(290,000)
Interest expense	<u>(57,351)</u>	<u>(70,876)</u>
Net cash used in capital and related financing activities	<u>(399,542)</u>	<u>(490,638)</u>
Cash flows from investing activities		
Income received on investments	1,236	13,138
Purchase of investment securities	<u>(741)</u>	<u>-</u>
Net cash used by investing activities	<u>495</u>	<u>13,138</u>
Net increase (decrease) in cash and cash equivalents	409,071	(3,796)
Cash, beginning of year	<u>1,733,060</u>	<u>1,736,856</u>
Cash, end of year	<u>2,142,131</u>	<u>1,733,060</u>
Less restricted cash		
Cash - restricted	<u>605,921</u>	<u>604,629</u>
Total restricted cash	<u>605,921</u>	<u>604,629</u>
Cash and cash equivalents per statement of net position	<u><u>\$ 1,536,210</u></u>	<u><u>\$ 1,128,431</u></u>

See accompanying notes to the financial statements

**MUHLENBERG COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Cash flows from operating activities		
Operating income	\$ 178,822	\$ (86,078)
Adjustment to reconcile revenue to net cash provided by operating activities		
Depreciation	476,000	501,421
(Increase) decrease in		
Accounts receivable and unbilled revenues	35,725	(84,249)
Inventory	(21,493)	2,807
Prepaid expenses	25,928	(26,893)
Increase (decrease) in		
Accounts payable	32,242	(35,723)
Customer deposits	1,660	4,550
Accrued liabilities	31,497	(57,617)
OPEB	13,538	37,509
Pension	34,199	217,977
	\$ 808,118	\$ 473,704
Net cash provided by operating activities	\$ 808,118	\$ 473,704

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Muhlenberg County Water District (the “District”), was established under the provisions of Chapter 74 of the Kentucky Revised Statutes in July 1962. Actual operations began in December 1967. The Muhlenberg County Judge Executive appoints a three member commission that oversees the District’s water system which renders services based on user charges.

Reporting Entity

The District is governed by a five-member board (Board). The criteria for determining the District as a component unit of Muhlenberg County, Kentucky, the primary government, is financial accountability. As set forth in Section 2100, Defining the Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB) Codification, a primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and it is able to impose its will on that organization. The majority of the Commissioners of the Board are appointed by the Muhlenberg County Judge Executive subject to the approval of the Muhlenberg County Fiscal Court. Muhlenberg County is able to impose its will on the District through the ability to remove appointed members of the Board at will and the ability to modify or approve the budget of the District.

The more significant accounting policies of the Muhlenberg County Water District are as follows:

Basis of Presentation and Accounting

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to enterprise funds of governmental units. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises. The District’s intent is that the costs of providing goods or services to customers on a continuing basis be financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred and/or changes in net position is appropriate for capital maintenance, public policy, management control and accountability.

The District follows the accrual basis of accounting. Under this basis of accounting, revenue is recognized when earned and expenses are recorded when incurred. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for water consumption. Operating expenses consist of bulk water purchases, administrative expenses and depreciation of capital assets. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions.

When an expense is incurred for purposes in which both restricted and unrestricted net assets are available, it is the District’s policy to first apply restricted resources.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net positions are classified in the following categories:

- Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of the net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted Net Position – This amount is constricted by creditors, grantors, contributors or laws or regulations of other governments. Restricted assets will be reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Unrestricted Net Position – This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Investments

Cash equivalents used for operations are deposited with Old National Bank. Cash equivalents used for debt service are deposited with Regions Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

For the purpose of the statement of cash flows, the District considers cash equivalents to be all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and are described as follows:

- Level 1 – Inputs are quoted prices in active markets for identical assets;
- Level 2 – Inputs are significant other observable inputs;
- Level 3 – Inputs are significant unobservable inputs.

Accounts Receivable

Billed receivables are stated at the amount billed to customers. Unbilled receivables are recorded for services provided for which customers have not been billed at December 31, 2021 and 2020. The District grants credit to its customers, all of whom are residents or businesses located in Muhlenberg County, Kentucky. An allowance for uncollectible accounts has been provided based on prior years' loss experiences as a percentage of revenues billed. Based on past experience, management considers the allowance of \$26,688 and \$18,839 for December 31, 2021 and 2020 adequate to provide for any losses on collection of the accounts receivable.

Inventory

Operating supplies are stated at the lower of cost, determined by first-in first-out (FIFO) method, or net realizable value.

Restricted Assets

Restricted assets represent resources designated for specific purposes and customer deposits.

Capital Assets

Capital assets are stated at historical cost. Donated assets are recorded at acquisition value at the time received. Expenses for repairs and upgrading which materially add to the value or life of an asset are capitalized. Other maintenance and repair costs are expensed as incurred. Interest costs for utility plant asset construction are capitalized. Interest incurred on debt during a construction project is capitalized as a cost of the construction project.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Depreciation rates based upon estimated useful lives have been applied on the straight-line method. The estimated useful lives are as follows:

Utility system	20 - 65 years
Furniture, machinery and equipment	5 - 10 years
Improvements	5 - 10 years
Vehicles	3 - 5 years

Construction in Progress

Construction in progress includes design and construction costs that accumulate until completion of the respective project, at which time the total cost is transferred to depreciable capital assets.

Long-term Debt

Debt is a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

Compensated Absences

The District recognizes a liability for unpaid compensated absences arising from unpaid sick time in accordance with Governmental Accounting Standards Board (GASB) Statement 16. GASB Statement 16 requires employers to accrue a liability for future vacation, sick and other leave benefits that meet the following conditions:

- The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

Employees earn vacation leave on their hire date anniversary of each year. Employees hired during the first 6 months of any year will receive 5 days of vacation during the first year of employment and 10 days of vacation during the second year. Persons hired during the last 6 months of any year receive days on a prorated basis during the first year of employment. Vacation days after the second year of employment are earned as 10 days in the third to the fifth year, 15 days in the sixth through tenth year and 20 days after year ten. Vacation leave may not be carried forward from one year to the next. Each year employees receive 12 sick and/or personal days. Sick days may be carried forward into the next year if not used. Payment is made for any unused sick and personal leave upon resignation or retirement. Sick and personal leave benefits are limited to a maximum carryover of 50 days.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Deferred Charges

Costs related to revenue bond issues are capitalized as deferred charges and amortized over the life of the bond issue.

Bond Premiums

Bond premiums on long-term debt are capitalized and amortized to interest expense over the terms of the respective bonds using a method that approximates the effective interest method. Issuance costs are reported as expenses.

Customer Deposits

The District requires all new customers who do not have an existing account to pay a security deposit of \$50. This deposit is held on the account for a year, and then the account is reviewed for good standing. If the customer owns the property and the account is in good standing for a year, the security deposit is refunded with interest determined by the Kentucky Public Service Commission. If the customer is renting the property, when the customer moves out of the property, interest is added at the same rate as determined by the Kentucky Public Service Commission, and the security deposit is then applied to the outstanding balance on the account. If the security deposit is more than the amount owed on the account, the remainder is refunded to the customer.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement that presents net position reports a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement that presents financial position reports a separate section for deferred inflows of resources. These items represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The District has the following items that qualify for reporting as deferred inflows or outflows of resources:

- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow of resources; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors and changes of assumptions in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow of resources as appropriate.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

- Differences between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five-year period and may be reported as a deferred outflow or inflow of resources as appropriate.
- Changes in proportionate share that will be recognized in the pension or OPEB expense over the average expected remaining service lives of all employees provided with benefits. This may be reported as a deferred outflow or deferred inflow of resources as appropriate.

Pensions and Post-Employment Benefits Other than Pensions (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, OPEB and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Certified Employees Retirement System (CERS) and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The District's proportionate share of pension amounts were further allocated to each participating employer based on the contributions paid by each employer. Pension investments are reported at fair value. Note 6 provides further detail on the net pension liability.

Net Other Post-Employment Benefits (OPEB) Liability

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Certified Employees Retirement System (CERS) and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The District's proportionate share of OPEB amounts were further allocated to each participating employer based on the contributions paid by each employer. OPEB investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. Note 7 provides further detail on the net OPEB liability.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Post-Employment Healthcare Benefits

Retired District employees receive some healthcare benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS plan.

Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or connection to the District's system.

Budgets

The District adopted a fixed budget for the fiscal year ended December 31, 2021 and 2020. Flexible budgets prepared for several levels of possible activity are better for proprietary fund planning, control and evaluation purposes than fixed budgets. For this reason, actual comparison of the fixed operating budget adopted by the District and the actual operating revenues and expenses are not shown in these financial statements.

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2021 and 2020, the District has complied with budgetary guidelines.

Income Taxes

The District is exempt from federal and state income tax under Section 501 of the Internal Revenue Code as the District is an adjunct of the government of Muhlenberg County, Kentucky.

Reclassifications

Certain 2020 balances have been reclassified to conform to the 2021 presentation.

Subsequent Events

Subsequent events have been evaluated through August 2, 2022, which is the date the financial statements were available to be issued.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 2 – CASH AND INVESTMENTS

Deposits

Old National Bank

At year end, the carrying amount of the District's deposits held by Old National Bank were \$2,111,469, and the bank balances were \$2,151,766. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$1,901,766 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

Regions Bank

At year end, the carrying amount of the District's deposits held by Regions Bank in the Regions Trust Cash Sweep RTCS III account totaled \$211,404 and the bank balances were \$211,404. Of the bank balances, \$211,404 was covered by federal depository insurance.

The District's cash and investments (unrestricted and restricted) at year end are presented below.

	2021	2020
Cash equivalents	\$ 1,536,210	\$ 1,128,431
Restricted assets		
Cash equivalents	605,921	604,629
Investments	180,741	180,000

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute for bank deposits to be collateralized.

2021

The District's deposits were fully collateralized for all months of the year ending December 31, 2021.

2020

The District's deposits were fully collateralized for all months of the year ending December 31, 2020.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 2 – CASH AND INVESTMENTS, continued

Credit Risk

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds.

Concentration of Credit Risk

Financial instruments that potentially subject the District to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The District does not place any limit on the amount that may be invested with one issuer. At December 31, 2021 and 2020, the District had 100% of its investments in fully collateralized certificates of deposit.

Fair Value Measurement

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
<u>2021</u>			
Certificates of deposit	\$ 180,741	\$ -	\$ -
Total investments	<u>\$ 180,741</u>	<u>\$ -</u>	<u>\$ -</u>
<u>2020</u>			
Certificates of deposit	\$ 180,000	\$ -	\$ -
Total investments	<u>\$ 180,000</u>	<u>\$ -</u>	<u>\$ -</u>

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 3 – DISTRICT CAPITAL ASSET AND DEPRECIATION PROCEDURES

A summary of changes in major classifications of the District capital assets in service as of December 31, 2021 follows:

	Balance December 31, 2020	Additions	Deductions	Balance December 31, 2021
Capital assets not depreciated				
Land and land rights	\$ 39,752	\$ -	\$ -	\$ 39,752
Total capital assets not depreciated	<u>39,752</u>	<u>-</u>	<u>-</u>	<u>39,752</u>
Capital assets depreciated				
Plant and facilities	14,508,456	-	-	14,508,456
Buildings	891,245	28,653	(6,205)	913,693
Vehicles and equipment	1,117,395	174,039	(121,792)	1,169,642
Office furniture and equipment	<u>288,433</u>	<u>-</u>	<u>-</u>	<u>288,433</u>
Total capital assets depreciated	16,805,529	202,692	(127,997)	16,880,224
Less: Accumulated depreciation	<u>(10,338,351)</u>	<u>(476,000)</u>	<u>68,116</u>	<u>(10,746,235)</u>
Total capital assets depreciated, net	<u>6,467,178</u>	<u>(273,308)</u>	<u>(59,881)</u>	<u>6,133,989</u>
Total capital assets	<u>\$ 6,506,930</u>	<u>\$ (273,308)</u>	<u>\$ (59,881)</u>	<u>\$ 6,173,741</u>

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 3 – DISTRICT CAPITAL ASSET AND DEPRECIATION PROCEDURES, continued

A summary of changes in major classifications of the District capital assets in service as of December 31, 2020 follows:

	Balance December 31, 2019	Additions	Deductions	Balance December 31, 2020
Capital assets not depreciated				
Land and land rights	\$ 39,752	\$ -	\$ -	\$ 39,752
Construction in progress	1,000	-	(1,000)	-
Total capital assets not depreciated	<u>40,752</u>	<u>-</u>	<u>(1,000)</u>	<u>39,752</u>
Capital assets depreciated				
Plant and facilities	14,508,456	-	-	14,508,456
Buildings	851,850	73,675	(34,280)	891,245
Vehicles and equipment	1,086,836	167,528	(136,969)	1,117,395
Office furniture and equipment	288,433	-	-	288,433
Total capital assets depreciated	16,735,575	241,203	(171,249)	16,805,529
Less: Accumulated depreciation	<u>(9,928,710)</u>	<u>(501,421)</u>	<u>91,780</u>	<u>(10,338,351)</u>
Total capital assets depreciated, net	<u>6,806,865</u>	<u>(260,218)</u>	<u>(79,469)</u>	<u>6,467,178</u>
Total capital assets	<u>\$ 6,847,617</u>	<u>\$ (260,218)</u>	<u>\$ (80,469)</u>	<u>\$ 6,506,930</u>

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 4 – ACCOUNTS RECEIVABLE

The December 31 balances are represented by the following:

	2021	2020
Customer accounts receivable	\$ 356,395	\$ 382,115
Unbilled revenues	277,674	276,256
	\$ 634,069	\$ 658,371

NOTE 5 – LONG-TERM DEBT

A summary of changes in long-term debt for the year ended December 31, 2021 is listed as follows:

	Balance December 31, 2020	New Issues	Debt Payments and Refunds	Balance December 31, 2021	Amounts Due Within One Year
Revenue bonds	\$ 1,305,000	\$ -	\$ 295,000	\$ 1,010,000	\$ 240,000
Premium (discount)	29,429	-	13,080	16,349	13,080
Net OPEB liability	678,071	-	149,568	528,503	-
Net pension liability	2,154,403	-	393,921	1,760,482	-
Total long-term liabilities	\$ 4,166,903	\$ -	\$ 851,569	\$ 3,315,334	\$ 253,080

A summary of changes in long-term debt for the year ended December 31, 2020 is listed as follows:

	Balance December 31, 2019	Additions	Deductions	Balance December 31, 2020	Amounts Due Within One Year
Revenue bonds	\$ 1,595,000	\$ -	\$ 290,000	\$ 1,305,000	\$ 295,000
Premium (discount)	29,429	-	-	29,429	13,080
Net OPEB liability	463,227	214,844	-	678,071	-
Net pension liability	1,937,463	216,940	-	2,154,403	-
Total long-term liabilities	\$ 4,025,119	\$ 431,784	\$ 290,000	\$ 4,166,903	\$ 308,080

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 5 – LONG-TERM DEBT, continued

Series 2007-D

A bond resolution dated July 1, 2007, authorized issuance of \$1,895,000 of refunding revenue bonds maturing in annual installments through 2027. Interest is paid semiannually on January 1, and July 1, from 4.175% to 4.55% per annum and principal is payable annually on July 1.

Series 2013-B

A bond resolution dated March 27, 2013, authorized issuance of \$1,255,000 of refunding revenue bonds maturing in annual installments through 2021. Interest is paid semiannually on January 1, and July 1, from 2.30% to 4.30% per annum and principal is payable annually on January 1. This was paid in full during 2021.

Series 2013-C

A bond resolution dated March 27, 2013, authorized issuance of \$1,150,000 of refunding revenue bonds maturing in annual installments through 2023. Interest is paid semiannually on January 1, and July 1, from 2.30% to 4.80% per annum and principal is payable annually on January 1.

Revenue Bond debt service requirements to maturity, including \$136,048 of interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2022	\$ 240,000	\$ 43,173	\$ 283,173
2023	250,000	32,133	282,133
2024	120,000	23,660	143,660
2025	125,000	18,200	143,200
2026	135,000	12,512	147,512
2027	140,000	6,370	146,370
Total	<u>\$ 1,010,000</u>	<u>\$ 136,048</u>	<u>\$ 1,146,048</u>

Bond covenants for the District require the maintenance of a Bond Sinking Fund. Monthly deposits are to be made to this fund for payment of interest and principal of outstanding bonds, a sum equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the bonds, plus a sum equal to one-twelfth (1/12) of the principal of any bonds maturing on the next succeeding principal payment date. The District was in compliance with this requirement at December 31, 2021 and 2020.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 – DEFINED BENEFIT PENSION PLAN

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the County Employees’ Retirement System (CERS) and additions to/deductions from CERS’ fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General information about the County Employees Retirement System Non-Hazardous (CERS)

Plan description – The District and covered employees contribute to the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Public Pensions Authority (KPPA). Kentucky Revised Statute Section 61.645 as amended by House Bill 484 and House Bill 9 of the 2020 and 2021 regular sessions, respectively, of the Kentucky General Assembly assigns the authority to establish and amend benefit provisions to the Board of Trustees of the KPPA. These amendments transferred governance of the CERS to a separate nine member board of trustees. The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the KPPA. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. KPPA issues a publicly available financial report that can be obtained on their website.

Benefits provided – Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. There are currently three benefit tiers.

For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement Required contributions	Before September 1, 2008 27 years’ service or 65 years old At least 5 years’ service and 55 years old At least 25 years’ service and any age 5.00%
Tier 2	Participation date Unreduced retirement Reduced retirement Required contributions	September 1, 2008 – December 31, 2013 At least 5 years’ service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years’ service and 60 years old 5.00% + 1.00% for insurance
Tier 3	Participation date Unreduced retirement Reduced retirement Required contributions	After December 31, 2013 At least 5 years’ service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available 5.00% + 1.00% for insurance

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 – DEFINED BENEFIT PENSION PLAN, continued

Contributions – Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Public Pensions Authority on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended December 31, 2021, plan members were required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 were required to contribute 6% of their annual creditable compensation. The District is required to contribute at an actuarial determined rate.

Contribution Rates and Amounts for CERS Non-Hazardous

Period	Pension	Insurance	Total	Employer	
				Pension	Insurance
01/01/2021 - 06/30/2021	19.30%	4.76%	24.06%	\$ 64,182	\$ 15,829
07/01/2021 - 12/31/2021	21.17%	5.78%	26.95%	78,147	21,337
				<u>\$ 142,329</u>	<u>\$ 37,166</u>

Pension Liabilities, Pension Expense, Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2021 and 2020, the District reported a liability of \$1,760,482 and \$2,154,403 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's portion of the net pension liability was based on the District's proportionate share of retirement contributions for the fiscal year ended June 30, 2021 and 2020. At December 31, 2021 and 2020, the District's proportion was .0276121% and .028089%, respectively.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 – DEFINED BENEFIT PENSION PLAN, continued

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense, they are labeled deferred inflows. If they will increase pension expense, they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. For the years ended December 31, 2021 and 2020, the District recognized pension expense of \$212,844 and \$364,744, respectively, related to CERS.

At December 31, 2021 and 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 68,295	\$ 302,938	\$ 93,386	\$ 39,475
Change of assumptions	23,628	-	84,126	-
Net differences between projected and actual earnings on investments	20,216	17,087	53,724	-
Changes in proportion and difference between District contributions and proportionate share of contributions	15,575	18,610	31,343	303
District contributions subsequent to the measurement date	78,147	-	72,545	-
Total	\$ 205,861	\$ 338,635	\$ 335,124	\$ 39,778

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 – DEFINED BENEFIT PENSION PLAN, continued

The amounts of \$78,147 and \$72,545 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2022 and 2021. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending December 31</u>	
2022	\$ (20,712)
2023	(63,330)
2024	(53,400)
2025	(73,479)
2026	<u>-</u>
Total	<u>\$ (210,921)</u>

Actuarial assumptions – The total pension liability, net pension liability and sensitivity information as of June 30, 2021 and 2020 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled forward from the valuation date (June 30, 2020) to the plan’s fiscal year ending June 30, 2021, using generally accepted actuarial principles.

There have been no actuarial assumption or method changes since June 30, 2020. Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become “totally and permanently disabled” in the line of duty or as a result of a duty-related disability. The total pension liability as of June 30, 2021, is determined using these updated benefit provisions.

	<u>Measurement Period</u>	
	<u>2021</u>	<u>2020</u>
Inflation	2.30%	2.30%
Projected salary increases, average, including inflation	3.30% to 10.30%	3.30% to 11.55%
Investment rate of return, net of plan investment expense, including inflation	6.25%	6.25%
Payroll growth rate	2.00%	2.00%

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 – DEFINED BENEFIT PENSION PLAN, continued

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy 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 2020. 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 rate of return – The long-term expected return on plan assets was determined by using a building-block method in which best-estimated ranges of expected future real 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 arithmetical real rates of return for each major asset class are summarized in the following tables:

Measurement Period 2021		
Asset Class	Allocation	Expected
US equity	21.75%	5.70%
International equity	21.75%	6.35%
Core bonds	10.00%	0.00%
High yield	15.00%	2.80%
Real estate	10.00%	5.40%
Real return	10.00%	4.55%
Private equity	10.00%	9.70%
Cash	1.50%	-0.60%
Total	<u>100.00%</u>	

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 – DEFINED BENEFIT PENSION PLAN, continued

Measurement Period 2020	Allocation	Expected
<u>Asset Class</u>		
US equity	18.75%	4.50%
International equity	18.75%	5.25%
Core bonds	13.50%	-0.25%
High yield	15.00%	3.90%
Opportunistic	3.00%	2.25%
Real estate	5.00%	5.30%
Real return	15.00%	3.50%
Private equity	10.00%	6.65%
Cash	1.00%	-0.75%
Total	<u>100.00%</u>	

Discount rate – The discount rates used to measure the total pension liability for the measurement periods with years ended June 30, 2021 and 2020 were 6.25% and 6.25%, respectively. The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-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 net pension liability to changes in the discount rate – The following table presents the District's proportionate share of the net pension liability, calculated using the discount rates selected by the pension system, 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 or 1-percentage-point higher than the current rate.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 – DEFINED BENEFIT PENSION PLAN, continued

<u>2021</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 2,257,901	\$ 1,760,482	\$ 1,348,879

<u>2020</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 2,656,848	\$ 2,154,403	\$ 1,738,360

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

Payable to the pension plan – At December 31, 2021 and 2020, the District had paid its contractually required employee and employer contributions primarily for the month ended December 31, 2021 and 2020, within prescribed time limits.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information about the County Employees Retirement System Non-Hazardous OPEB Plan

Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority’s administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS) and State Police Retirement System (SPRS) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority’s website.

Plan description – The Kentucky Public Pensions Authority (KPPA) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS and CERS. Although the assets of the systems are invested as a whole, each system’s assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

Benefits provided – The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Post-Employment Benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Implicit subsidy – KPPA pays fully insured premiums for the Kentucky Health Plan. The premiums are blended rates based on the combined experience of active and retired members. Because the average cost of providing healthcare benefits to retirees under age 65 is higher than the average cost of providing healthcare benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

Contributions – The Commonwealth is required to contribute at an actuarially determined rate for KERS. Participating employers are required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Sections KERS 61.565(3) and CERS 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of the last annual valuation preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget for KERS.

Contribution Rates and Amounts for CERS Non-Hazardous

<u>Period</u>	<u>Pension</u>	<u>Insurance</u>	<u>Total</u>	<u>Employer</u>	
				<u>Pension</u>	<u>Insurance</u>
01/01/2021 - 06/30/2021	19.30%	4.76%	24.06%	\$ 64,182	\$ 15,829
07/01/2021 - 12/31/2021	21.17%	5.78%	26.95%	78,147	21,337
				<u>\$ 142,329</u>	<u>\$ 37,166</u>

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

At December 31, 2021 and 2020, the District reported a liability of \$528,503 and \$678,071 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 June 30, 2020. The total OPEB liability was rolled forward from the valuation date to the plan’s fiscal year end, June 30, 2021, using generally accepted actuarial principles. The District’s proportion of the net OPEB liability was based on the District’s share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2021 and 2020, the District’s proportion for the non-hazardous system was 0.027606% and 0.028081%, respectively.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

For the year ended December 31, 2021 and 2020, the District recognized OPEB expense of \$13,538 and \$73,706, respectively. At December 31, 2021 and 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 26,628	\$ 109,305	\$ 36,374	\$ 13,836
Changes of assumptions	140,116	491	117,944	717
Net difference between projected and actual earnings on OPEB plan investments	83,107	157,793	113,291	113,380
Changes in proportion and differences between District contributions and proportionate share of contributions	4,540	10,529	6,081	2,185
District contributions subsequent to the measurement date	<u>38,726</u>	-	<u>34,533</u>	-
Total	<u>\$ 293,117</u>	<u>\$ 278,118</u>	<u>\$ 308,223</u>	<u>\$ 130,118</u>

The amounts of \$38,726 and \$34,533 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the years ending December 31, 2022 and 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending December 31	
2022	\$ 11,898
2023	(662)
2024	(1,795)
2025	(33,168)
2026	-
Total	<u>\$ (23,727)</u>

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial assumptions – The total OPEB liability actuarial valuation was determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2019
Payroll Growth Rate	2.00%
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.50% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy 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 2020. 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 rate of return – The long-term expected return on plan assets was determined by using a building-block method in which best-estimated ranges of expected future real 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.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

Measurement Period 2021		
<u>Asset Class</u>	<u>Allocation</u>	<u>Expected</u>
US equity	21.75%	5.70%
International equity	21.75%	6.35%
Core bonds	10.00%	0.00%
High yield	15.00%	2.80%
Real estate	10.00%	5.40%
Real return	10.00%	4.55%
Private equity	10.00%	9.70%
Cash	1.50%	-0.60%
Total	<u>100.00%</u>	

Measurement Period 2020		
<u>Asset Class</u>	<u>Allocation</u>	<u>Expected</u>
US equity	18.75%	4.50%
International equity	18.75%	5.25%
Core bonds	13.50%	-0.25%
High yield	15.00%	3.90%
Opportunistic	3.00%	2.25%
Real estate	5.00%	5.30%
Real return	15.00%	3.95%
Private equity	10.00%	6.65%
Cash	1.00%	-0.75%
Total	<u>100.00%</u>	

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Discount rate – Single discount rates used to measure the total OPEB liability for the years ended December 30, 2021 and 2020 were 5.20% and 5.34% for CERS Non-hazardous plans. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 1.92%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan’s fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans’ actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plans’ trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the ACFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30 2028, for the CERS plans.

Sensitivity of the Districts’ 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, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.20% for non-hazardous and 4.05% for hazardous) or 1-percentage-point higher (6.20% for non-hazardous and 6.05% for hazardous) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
<u>2021</u>	<u>4.20%</u>	<u>5.20%</u>	<u>6.20%</u>
District's proportionate share of net OPEB liability	\$ 725,631	\$ 528,503	\$ 366,727
<u>2020</u>	<u>4.34%</u>	<u>5.34%</u>	<u>6.34%</u>
District's proportionate share of net OPEB liability	\$ 871,122	\$ 678,071	\$ 519,511

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

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.

2021	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 380,459	\$ 528,503	\$ 707,194
2020			
District's proportionate share of net OPEB liability	\$ 524,996	\$ 678,071	\$ 863,830

Pension plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

Payable to the OPEB Plan – At December 31, 2021 and 2020, the District had paid its contractually required employee and employer contributions primarily for the month ended December 31, 2021 and 2020, within prescribed time limits.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these types of risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 9 - COMMITMENTS

Purchase Contracts

Central City Municipal Water and Sewer

On June 20, 2011, the District entered into an agreement with the City of Central City, Kentucky to continue to purchase treated water from the City's water treatment plant. The contract became effective April 1, 2012 for a period of 50 years and states that the initial rate will be \$2.63 per 1,000 gallons of water purchased. The District purchased \$1,416,224 and \$1,314,875 from Central City during the years ended December 31, 2021 and 2020, respectively.

Todd County Water District

On May 1, 2006, the District entered into a long-term contract with Todd County Water District for the purchase of treated water. The contract for water is for a period of 25 years and calls for water sales not to exceed 800,000 gallons per month at a rate of \$4.85 per 1,000 gallons. Water rate increases imposed by Todd County Water District will be passed onto the District as they occur. The District purchased \$5,258 and \$3,736 from Todd County Water District during the years ended December 31, 2021 and 2020, respectively.

Wholesale Contract

The District sells water on a wholesale basis to the City of Drakesboro, Kentucky. The original October 1967 contract was amended in May 1997, to extend water sales to October 2047. The District has the authority by the Public Service Commission of Kentucky, to periodically adjust the rates charged to the City of Drakesboro. Total sales to the City of Drakesboro during the years ended December 31, 2021 and 2020 were \$112,382 and \$97,456, respectively.

NOTE 10 - PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2021 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This District has fulfilled this requirement.

NOTE 11 – COVID-19 IMPACT

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 11 – COVID-19 IMPACT, continued

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, the District's financial condition, liquidity and results of operations for Fiscal Year 2021 were largely similar to those in Fiscal Year 2020. Management continues to actively monitor the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry and workforce.

NOTE 12 – ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on extensions in Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

In June 2017, The GASB issued Statement No. 87, *Leases*. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued Statement No. 92, *Omnibus*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 12 – ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS, continued

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

Management has not determined the effects these new GASB Statements may have on future financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**MUHLENBERG COUNTY WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
DECEMBER 31, 2021**

<u>As of December 31</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's portion of net pension liability	0.0276121%	0.028089%	0.0274548%	0.027424%	0.027477%	0.025642%	0.030526%	0.031616%
District's proportionate share of net pension liability	\$ 1,760,482	\$ 2,154,403	\$ 1,937,463	\$ 1,670,266	\$ 1,608,313	\$ 1,262,538	\$ 1,312,459	\$ 1,025,728
State's proportionate share of net pension liability associated with the Utility	-	-	-	-	-	-	-	-
Total	<u>\$ 1,760,482</u>	<u>\$ 2,154,403</u>	<u>\$ 1,937,463</u>	<u>\$ 1,670,266</u>	<u>\$ 1,608,313</u>	<u>\$ 1,262,538</u>	<u>\$ 1,312,459</u>	<u>\$ 1,025,728</u>
District's covered-employee payroll	\$ 701,692	\$ 731,070	\$ 718,749	\$ 677,129	\$ 668,998	\$ 633,013	\$ 631,069	\$672,959
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	250.89%	294.69%	269.56%	246.67%	240.41%	199.45%	207.97%	152.42%
Plan fiduciary net position as a percentage of total pension liability	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is six months prior to the year end.

See accompanying notes to the required supplementary information.

**MUHLENBERG COUNTY WATER DISTRICT
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM
DECEMBER 31, 2021**

<u>For the year ended December 31</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 142,329	\$ 141,097	\$ 128,107	\$ 104,143	\$ 95,858	\$ 83,853	\$ 79,731	\$ 100,144
Contributions in relation to the contractually required contribution	<u>142,329</u>	<u>141,097</u>	<u>128,107</u>	<u>104,143</u>	<u>95,858</u>	<u>83,853</u>	<u>79,731</u>	<u>\$ 100,144</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 701,692	\$ 731,070	\$ 718,749	\$ 677,129	\$ 678,780	\$ 633,013	\$ 631,069	\$ 672,959
Contributions as a percentage of covered employee payroll								
January to June rates	18.28%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
July to December rates	21.17%	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years.

See accompanying notes to the required supplementary information.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN
DECEMBER 31, 2021**

Changes in benefit terms

2021

No changes.

2020

During the 2020 legislative session, Senate Bill 249 passed and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

House Bill 271 passed during the 2020 Legislative Session and removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries.

Changes in assumptions

2021

No changes.

2020

No changes.

**MUHLENBERG COUNTY WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
DECEMBER 31, 2021**

<u>As of December 31</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's proportion of the OPEB liability (asset)	0.027606%	0.028081%	0.027541%	0.027424%	0.027477%	0.027477%
District's proportionate share of net OPEB liability (asset)	<u>\$ 528,503</u>	<u>\$ 678,071</u>	<u>\$ 463,227</u>	<u>\$ 486,908</u>	<u>\$ 552,382</u>	<u>\$ 433,272</u>
District's covered - employee payroll	\$ 701,692	\$ 731,070	\$ 718,749	\$ 677,129	\$ 673,780	\$ 633,013
District's proportionate share of the OPEB liability (asset) as a percentage of its covered-employee payroll	75.32%	92.75%	64.45%	71.91%	81.98%	68.45%
Plan fiduciary net position as a percentage of total OPEB liability	62.91%	51.67%	60.44%	57.62%	52.39%	55.24%

Note: Information prior to 2016 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is six months prior to year end.

See accompanying notes to the required supplementary information.

**MUHLENBERG COUNTY WATER DISTRICT
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM
DECEMBER 31, 2021**

<u>For the year ended December 31</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required OPEB contribution	\$ 37,166	\$ 34,799	\$ 35,935	\$ 33,787	\$ 31,763	\$ 29,651
Contributions in relation to the contractually required contribution	<u>37,166</u>	<u>34,799</u>	<u>35,935</u>	<u>33,787</u>	<u>31,763</u>	<u>29,651</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 701,692	\$ 731,070	\$ 718,749	\$ 677,129	\$ 673,780	\$ 633,013
Contributions as a percentage of covered-employee payroll						
January to June rates	5.30%	4.76%	5.26%	4.70%	4.73%	4.64%
July to December rates	5.78%	4.76%	4.76%	5.26%	4.70%	4.73%

Note: Information prior to 2016 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to the required supplementary information.

**MUHLENBERG COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB
DECEMBER 31, 2021 and DECEMBER 31, 2020**

Changes in benefit terms

2021

During the 2021 legislative session, Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become “totally and permanently disabled” in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021 is determined using these updated benefit provisions. There were no other material plan provision changes, and it is our opinion that these procedures are reasonable and appropriate and comply with applicable requirements under GASB Statement No. 75.

2020

No changes.

Changes in assumptions

2021

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The single discount rate used to calculate the OPEB liability was decreased from 5.34% to 5.20% for non-hazardous and from 5.30% to 5.05% for hazardous.
- The healthcare trend rate 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 for pre-65. The healthcare trend rate 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 for post-65.

2020

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

- The healthcare trend rate 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 for pre-65. The healthcare trend rate starting at 2.90% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for post-65.
- The single discount rate of non-hazardous changed from 5.68% to 5.34%.
- The municipal bond rate decreased from 3.13% to 2.45%.
- The June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed loan on pre-Medicare premiums was reduced by 11% to reflect the repeal of the Health Insurer Fee.

INTERNAL CONTROL AND COMPLIANCE

SANDRA D. DUGUID, CPA
ANNA B. GENTRY HERR, CPA, CFE

WALTER G. CUMMINGS, CPA
MEREDITH D. MORRIS, CPA



4443 CANTON PIKE
HOPKINSVILLE, KY 42240

270.886.6355

DUGUID, GENTRY & ASSOCIATES, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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**

Commissioners
Muhlenberg County Water District
Hopkinsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Muhlenberg County Water District as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Muhlenberg County Water District's basic financial statements, and have issued our report thereon dated August 2, 2022.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2021-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muhlenberg County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statement amounts. 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*.

Muhlenberg County Water District's Response to Finding

Muhlenberg County Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Muhlenberg County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Duguid, Gentry & Associates, PSC

Duguid, Gentry & Associates, PSC

Certified Public Accountants
Hopkinsville, Kentucky

August 2, 2022

**MUHLENBERG COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

2021-001 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.

Recommendation

While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.

Response

The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.