NORTH MERCER WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2023

KERBAUGH, RODES & BUTLER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

DANVILLE, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

Chairman and Commissioners
North Mercer Water District
Salvisa, KY 40372

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the North Mercer Water District (the District) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2023, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 management's discussion and analysis on pages 4 through 6 and the historical pension and OPEB information on pages 27 through 32 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 Information

We have previously audited the District's 2022 financial statements, and we expressed an unmodified opinion on the respective financial statements in our report dated March 30, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 25, 2024

NORTH MERCER WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023

The management of North Mercer Water District (the District) presents this narrative to help our readers review the accompanying annual financial statements for the year ended December 31, 2023. We have prepared this overview and analysis of the District's financial activities to add additional information to the financial schedules and the note disclosures. Our analysis will examine the financial highlights for this fiscal year and help explain the format for our readers.

Financial Highlights

- As of December 31, 2023, the District's assets (page 8) exceeded liabilities by $4,419,754. This amount includes $4,073,681 of resources that are invested in capital assets, net of related debt. $346,073 of these resources are unrestricted and are available to fund the District's outstanding obligations and future programs.
- Unrestricted cash and cash equivalents (page 7) as of December 31, 2023, were $634,916 and current liabilities payable from unrestricted resources (i.e., excluding principal and interest on long term debt) were $532,403.
- Net position (equity) increased by $570,051 (page 9). It should be noted that this increase includes depreciation expense of $454,068, a non-cash expense. The water loss percentage for the year was approximately 9.93% which represents a decrease compared to the previous year water loss percentage of 18.97%.
- The District's total debt decreased $311,328 for the year ended December 31, 2023. The decrease was the result of scheduled principal payments of $309,000 and the amortization of the Series 2016D bond premium of $2,328.
- The District's net capital assets increased $57,856 for the year ended December 31, 2023. The increase was primarily the result of construction for the waterline replacement project of $373,330, new water meters totaling $89,600, and a new truck totaling $42,783. These additions are partially offset by depreciation expense of $454,068.

Overview of the Financial Statements

This discussion and analysis is intended to introduce the District's financial statements. Basic financial statements include two major sections: 1) government-wide financial statements, and 2) notes to the financial statements.

The North Mercer Water District is a special-purpose governmental entity. It utilizes the accrual basis of accounting applicable to all *proprietary fund types.* Revenues are recognized when earned regardless of when received and expenses are recognized when incurred regardless of when paid.

Notes to the Financial Statements
Notes provide additional information that is essential to a full understanding of the information included in the financial statements. Notes provide additional details about the balances and transactions in the District's financial statements and are presented on pages 14 through 26.

Government-wide Financial Analysis

Net position (equity) may serve over time as a useful indicator of a government's financial position. 92% of the District's net position reflects its investment in capital assets (e.g., distribution system, equipment, etc.), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. 8% of the District's net position is unrestricted.

The first statement in the government-wide statements is the Statement of Net Position. The following table summarizes the Statement of Net Position (pages 7-8).

	2023	2022
Current and other assets	$ 2,651,605	$ 2,418,816
Capital assets	12,406,041	12,348,185
Total Assets	15,057,646	14,767,001
Deferred outflows of resources	565,831	611,677
Long-term debt outstanding	8,332,360	8,643,688
Net pension liability	1,363,123	1,484,189
Net OPEB liability	-	405,103
Other liabilities	684,595	595,184
Total liabilities	10,380,078	11,128,164
Deferred inflows of resources	823,645	400,811
Net Position:		
Net investment in capital assets	4,073,681	3,704,497
Unrestricted	346,073	145,206
Total net position	$ 4,419,754	$ 3,849,703

The second statement in the government-wide statements is the Statement of Revenues, Expenses, and Changes in Net Position. The following table outlines the major components of this statement.

	2023	2022
Revenues:		
Charges for services	$ 3,065,113	$ 2,968,981
Grants and contributions	450,173	222,997
Rental income	6,000	6,000
Interest earnings	20,882	28,745
Total revenues	3,542,168	3,226,723
Expenses:		
Operating expenses, excluding depreciation	2,266,028	2,268,352
Depreciation	454,068	466,529
Interest and amortization	252,021	295,704
Total expenses	2,972,117	3,030,585
Increase (decrease) in net position	$ 570,051	$ 196,138

Capital Asset and Debt Administration

The District invests substantial resources in capital assets that support the services provided to its customers. All of the District's outstanding debt has been used to acquire or construct capital assets.

Capital Assets

The District's capital assets, net of accumulated depreciation are summarized below:

	2023	2022
Land	$ 48,802	$ 48,802
Buildings, structures & improvements	152,515	160,581
Equipment, vehicles, furniture, & fixtures	202,010	185,373
Transmission system	5,496,574	5,790,928
Distribution system	748,797	788,220
Water meters	1,148,135	1,136,841
Hydrants	2,951	3,313
Pump station equipment	6,600	7,800
Construction in progress	4,599,657	4,226,327
Total, net of depreciation	$ 12,406,041	$ 12,348,185

Long Term Debt

The principal outstanding on the District's long-term debt is summarized in the following table.

	2023	2022
Water revenue refunding bonds	$ 1,995,000	$ 2,190,000
Water revenue bonds	6,291,000	6,405,000
Bond premium, Series 2016D	46,360	48,688
Total	$ 8,332,360	$ 8,643,688

The District's outstanding debt decreased as a result of the scheduled principal payments and amortization of the 2016D bond premium.

Economic Factors for Next Year

As stated previously, the District has struggled at times getting its water losses under control. Going forward, the District will continue to monitor its water losses and take the necessary action to keep them at an acceptable level.

The most significant economic factor identified by the District's management that will have a direct adverse effect on the financial condition of the District next year and beyond are the continued increases in the CERS employer contribution rates mandated by the state related to the employee pension and OPEB plans. The funded status of the CERS plan will have a significant impact on the required contributions and the District's proportionate share of the net pension and OPEB liabilities. House Bill 362 passed during the 2018 legislative session caps the CERS employer contribution rate increases to 12 percent per year over the prior fiscal year through 2028.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office, P.O. Box 79, Salvisa, KY 40372, telephone number (859) 865-2292.

NORTH MERCER WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2022)

	2023	2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 634,916	$ 510,442
Cash and cash equivalents - restricted	1,118,237	1,193,307
Accounts receivable (net of allowance)	402,581	366,849
Grant receivable	231,349	-
Inventory	108,352	137,156
Prepaid expenses	55,208	39,253
Total Current Assets	2,550,643	2,247,007
Non-Current Assets:		
Unamortized bond issuance costs	71,631	76,769
Investments	-	95,040
Net OPEB asset	29,331	-
Capital assets, net	12,406,041	12,348,185
Total Non-Current Assets	12,507,003	12,519,994
Total Assets	15,057,646	14,767,001
Deferred outflows of resources:		
Pension	406,183	379,729
OPEB	159,648	231,948
Total Deferred Outflows of Resources	565,831	611,677
Total Assets and Deferred Outflows	$ 15,623,477	$ 15,378,678

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

NORTH MERCER WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2022)

	2023	2022
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 78,338	$ 81,142
Accounts payable-contractors	231,349	149,107
Accrued liabilities	44,273	60,227
Customer deposits	178,443	167,343
Accrued interest payable	115,372	104,198
Current portion of long-term liabilities	227,500	309,000
Total Current Liabilities	875,275	871,017
Non-Current Liabilities:		
Accrued compensated absences	36,820	33,167
Net pension liability	1,363,123	1,484,189
Net OPEB liability	-	405,103
Water revenue bonds	8,104,860	8,334,688
Total Non-Current Liabilities	9,504,803	10,257,147
Total Liabilities	10,380,078	11,128,164
Deferred inflows of resources:		
Pension	299,318	187,323
OPEB	524,327	213,488
Total Deferred Inflows of Resources	823,645	400,811
NET POSITION		
Net investment in capital assets	4,073,681	3,704,497
Unrestricted	346,073	145,206
Total Net Position	4,419,754	3,849,703
Total Liabilities, Deferred Inflows and Net Position	$ 15,623,477	$ 15,378,678

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

NORTH MERCER WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022)

	2023	2022
Operating Revenue:		
Water sales	$ 2,983,875	$ 2,891,183
Miscellaneous	81,238	77,798
Total Operating Revenue	3,065,113	2,968,981
Operating Expenses:		
Source of supply	893,515	931,374
Transmission and distribution	745,034	711,611
Customer accounts	244,295	212,002
General and administrative	323,734	359,871
Total Operating Expenses Before Taxes and Depreciation	2,206,578	2,214,858
Taxes	59,450	53,494
Depreciation	454,068	466,529
Total Operating Expenses	2,720,096	2,734,881
Operating Income	345,017	234,100
Non-Operating Revenue (Expenses):		
Rent	6,000	6,000
Interest income	20,882	28,745
Interest expense	(249,210)	(292,893)
Bond issuance costs	(2,811)	(2,811)
Total Non-Operating Revenue (Expenses)	(225,139)	(260,959)
Change in Net Position Before Capital Contributions	119,878	(26,859)
Capital contributions	450,173	222,997
Change in Net Position	570,051	196,138
Net Position - Beginning of Year	3,849,703	3,653,565
Net Position - End of Year	$ 4,419,754	$ 3,849,703

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

NORTH MERCER WATER DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022)

	Tap Fees	Contributions In Aid Of Construction	Retained Deficit	Total
Balance at January 1, 2022	$ 3,242,367	$ 4,834,335	$ (4,423,137)	$ 3,653,565
Capital contributions-government	-	127,597	-	127,597
Tap fees	95,400	-	-	95,400
2022 change in net position before capital contributions	-	-	(26,859)	(26,859)
Balance at December 31, 2022	3,337,767	4,961,932	(4,449,996)	3,849,703
Capital contributions-government grants	-	301,773	-	301,773
Tap fees	148,400	-	-	148,400
2023 change in net position before capital contributions	-	-	119,878	119,878
Balance at December 31, 2023	$ 3,486,167	$ 5,263,705	$ (4,330,118)	$ 4,419,754

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

NORTH MERCER WATER DISTRICT
STATEMENT OF OPERATING EXPENSES (BEFORE TAXES & DEPRECIATION)
FOR THE YEAR ENDED DECEMBER 31, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022)

	Source of Supply	Transmission & Distribution-Operating	Transmission & Distribution-Maintenance	Customer Accounts	Administrative & General	Totals 2023	Totals 2022
Salaries & Wages-Employees	$ -	$ 28,117	$ 349,814	$ 160,363	$ 123,270	$ 661,564	$ 591,437
Salaries & Wages-Directors	-	-	-	-	28,800	28,800	29,602
Employee Pension & Benefits	-	9,593	119,347	54,711	42,056	225,707	365,747
Purchased Water	893,515	-	-	-	-	893,515	931,374
Purchased Power	-	28,341	-	-	5,510	33,851	35,460
Materials & Supplies	-	94,200	13,458	26,537	10,027	144,222	40,351
Contractual Services-Accounting	-	-	-	-	11,100	11,100	11,300
Contractual Services-Legal	-	-	-	-	4,000	4,000	6,000
Contractual Services-Water Testing	-	8,600	-	-	-	8,600	6,045
Contractual Services-Other	-	-	42,149	-	-	42,149	40,028
Transportation Expenses	-	41,126	-	-	5,202	46,328	42,756
Insurance-General Liability	-	-	-	-	32,558	32,558	29,282
Insurance-Worker's Compensation	-	373	4,636	2,125	1,634	8,768	6,792
Bad Debts	-	-	-	559	-	559	17,262
Miscellaneous Expenses	-	-	5,280	-	59,577	64,857	61,422
Total Operating Expenses*	$ 893,515	$ 210,350	$ 534,684	$ 244,295	$ 323,734	$ 2,206,578	$ 2,214,858

*Before taxes and depreciation

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

NORTH MERCER WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022)

	2023	2022
Cash Flows From Operating Activities:		
Receipts from customers	$ 3,040,481	$ 2,980,951
Payments to suppliers	(1,339,912)	(1,262,689)
Payments for employee services & related benefits	(1,015,192)	(901,789)
Net Cash Provided by (Used in) Operating Activities	685,377	816,473
Cash Flows From Non-Capital Financing Activities:		
Interest paid on customer deposits	(320)	(195)
Net Cash Provided by (Used in) Non-Capital Financing Activities	(320)	(195)
Cash Flows From Capital and Related Financing Activities:		
Proceeds from tapping fees	148,400	95,400
Proceeds from federal grant	70,424	136,597
Acquisition of capital assets	(429,682)	(2,537,936)
Rent	6,000	6,000
Principal paid on bonded debt	(309,000)	(180,000)
Proceeds from bonded debt	-	3,400,000
Proceeds from interim financing	-	1,617,627
Principal paid on interim financing	-	(2,422,067)
Interest paid on debt	(237,717)	(228,609)
Net Cash Used in Financing Activities	(751,575)	(112,988)
Cash Flows From Investing Activities:		
Certificates of deposit redeemed	95,040	-
Interest income	20,882	28,745
Net Cash Provided by (Used in) Investing Activities	115,922	28,745
Net Increase (Decrease) in Cash & Cash Equivalents	49,404	732,035
Cash & Cash Equivalents - Beginning of Year	1,703,749	971,714
Cash & Cash Equivalents - End of Year	$ 1,753,153	$ 1,703,749

Continued

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

NORTH MERCER WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022)
Continued

	2023	2022
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	$ 345,017	$ 234,100
Depreciation	454,068	466,529
Decrease (increase) in accounts receivable	(35,732)	1,184
Decrease (increase) in inventory	28,804	-
Decrease (increase) in prepaid expenses	(15,955)	22,693
Increase (decrease) in accounts payable	(2,804)	(3,816)
Increase (decrease) in customer deposits	11,100	10,786
Increase (decrease) in accrued compensated absences	(12,301)	26,453
Increase (decrease) in net pension obligation and related deferrals	(86,820)	58,544
Net Cash Provided by (Used in) Operating Activities	$ 685,377	$ 816,473
Schedule of cash and cash equivalents:		
Beginning of period:		
Unrestricted cash and cash equivalents	$ 510,442	$ 382,710
Restricted cash and cash equivalents	1,193,307	589,004
Total cash and cash equivalents	$ 1,703,749	$ 971,714
End of period:		
Unrestricted cash and cash equivalents	$ 634,916	$ 510,442
Restricted cash and cash equivalents	1,118,237	1,193,307
Total cash and cash equivalents	$ 1,753,153	$ 1,703,749
Non-Cash Non-Capital Financing and Investing Activities:		
Amortization of bond issuance costs	$ 2,811	$ 2,811
Amortization of bond premium	$ 2,328	$ 2,328
Non-Cash Capital and Related Financing Activities:		
Capital assets included in accounts payable	$ 231,349	$ 149,107

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The North Mercer Water District (the District) was established in 1959 under KRS 74.010 to provide water service for public health, convenience, fire protection, and comfort to the residents of northern Mercer County, Kentucky. Several expansions of the system have taken place in Mercer, Anderson, Boyle, and Washington Counties since the creation of the District. The Board of Commissioners consists of three members, all residents of Mercer County, appointed by the county judge.

North Mercer Water District has been appointed by the Mercer County Fiscal Court as an independent unit. The District selects management, staff, sets user charges, establishes budgets and controls all aspects of its daily activities.

The commissioners appoint the Chair(person) from existing members. The Chair responsibilities are to preside at all meetings; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission or business organization and exercise supervision over the business of the District, its officers and employees.

The accompanying statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

Proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Position

Cash and Investments
For purposes of the statement of cash flows, the District considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased, to be cash equivalents.

Restricted Assets
Restricted assets represent cash and cash equivalents whose use is limited by legal requirements.

Accounts Receivable
All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles. At December 31, 2023, the allowance for uncollectibles was $49,269.

Inventory
Inventory consists of materials and supplies on hand at the end of the year and is stated at the lower of cost (average cost method) or market.

Utility Plant
Utility plant is recorded at cost for items purchased or constructed and at estimated fair market value on the date donated for contributed items. The capitalization threshold for utility plant is $500. Depreciation is computed by the straight-line method based on the estimated useful lives of related asset classifications. It is the District's policy to depreciate assets one-half year in the year of acquisition and one-half year in the year of disposal or retirement.

Construction in Progress
Construction work in progress represents costs accumulated for the replacement of sections of the District's transmission and distribution systems, plant expansions and rehabilitations, and other projects that were not completed at year end.

Compensated Absences
It is the District's policy to permit employees to accumulate earned but unused vacation benefits. Employees may, depending on level and length of service, be paid for various amounts of their total accrued leave upon termination or retirement. The District accrues a liability for leave hours that meet the criteria for payment at the eligible employees' current rates of pay plus retirement benefits and employment taxes. The accrual for compensated absences at December 31, 2023 was $36,820.

Long-Term Obligations
Long-term debt and other long-term obligations are reported as liabilities on the District's statement of net position.

Bond Issuance Costs
The Government Accounting Standards Board (GASB) issued GASB Statement #65, effective for fiscal years beginning after December 15, 2012. GASB Statement #65 changed the method of accounting for debt issuance costs. Prior to the issuance of GASB Statement #65, debt issuance costs were recognized in a systematic manner over the life of the related debt. However, GASB Statement #65 states that debt issuance costs (with the exception of prepaid insurance costs) should be recognized in the year they are incurred. Furthermore, regulated utilities are allowed to apply certain criteria outlined in GASB Statement #62 to determine if they can continue to amortize debt issuance costs. If the criteria are met, then debt issuance costs would continue to be amortized over the life of the related debt. The District has reviewed the criteria contained in GASB Statement #62 and has determined that it remains appropriate to amortize its bond issuance costs consistent with how it has treated them in prior years.

Net Position
Net position represents the differences between assets and liabilities in the statement of net position.

1. Net investment in capital assets represents net position invested in capital assets reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.
2. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governmental entities.

The District has determined that when both restricted and unrestricted funds are available, that they will use the restricted resources first.

Budget
In accordance with the District's enabling legislation, the Commission holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlays. The budget is adopted on a basis consistent with generally accepted accounting principles. It is monitored at various levels of classification detail within the enterprise fund.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates.

Subsequent Events
The District has evaluated and considered the need to recognize or disclose subsequent events through March 25, 2024, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2023, have not been evaluated by the District.

NOTE 2. DEPOSITS AND INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk.

Deposits
At year-end, the carrying amount of the District's deposits was $1,753,153 and the bank balance was $1,867,868. The bank balance covered by federal depository insurance was $868,532. Deposits of $999,336 were classified as Category 2, collateralized, as defined by GASB (securities are pledged with the financial institution's trust department or agent in the District's name).

Investments

Category 1	Insured or registered, with securities held by the District or its agent in the District’s name.
Category 2	Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the District’s name.
Category 3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District’s name.

The District had no investments at December 31, 2023.

NOTE 3. RESTRICTED ASSETS

Under the District’s bond agreements, the District is required to transfer to the Debt Service Account on or before the last day of each month the following amounts:

- Interest-deposit the sum together with the balance in this account an amount equal to the interest on all outstanding bonds accrued and unpaid and to accrue to the end of the then current calendar month.

- Principal-deposit the sum together with the balance in this account an amount equal to (a) the principal amount of all outstanding bonds other than term bonds due and unpaid, (b) that portion of the principal amount of the bonds next due which would have accrued on such bonds other than term bonds next due during the current calendar month if such principal amount thereof were deemed to accrue monthly in equal installments from a date one year preceding the due date of such bonds next due and (c) the portion of the principal amount of the bonds next due which shall have accrued on such basis in prior months.
- Depreciation-deposit a monthly sum until the depreciation account reaches the balance required by bond agreements.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and Land Rights	$ 48,802	$ -	$ -	$ 48,802
Total capital assets not being depreciated	48,802	-	-	48,802
Capital assets, being depreciated:				
Structures and improvements	348,401	-	-	348,401
Other plant	943,736	48,994	-	992,730
Equipment	48,174	-	-	48,174
Water system	17,095,921	89,600	-	17,185,521
Construction in Process	4,226,327	373,330	-	4,599,657
Total capital assets being depreciated	22,662,559	511,924	-	23,174,483
Less accumulated depreciation for:				
Structures and improvements	(187,818)	(8,068)	-	(195,886)
Other plant	(756,910)	(32,170)	-	(789,080)
Equipment	(47,426)	(187)	-	(47,613)
Water system	(9,371,022)	(413,643)	-	(9,784,665)
Total accumulated depreciation	(10,363,176)	(454,068)	-	(10,817,244)
Capital Assets, Net	$ 12,348,185	$ 57,856	$ -	$ 12,406,041

NOTE 5. LONG-TERM DEBT

Waterworks Revenue Bonds. Series 2011A

The District authorized the issuance of $1,547,000 in "Waterworks Revenue Bonds" by resolution to finance the construction of additions and improvements to the system. On January 19, 2012, the U.S. Department of Agriculture Rural Development purchased the entire issue at 3.00% interest rate. The bonds are payable and secured by a pledge of revenues derived from the operation of the system.

Waterworks Revenue Bonds. Series 2011

The District authorized the issuance of $1,874,000 in "Waterworks Revenue Bonds" by resolution to finance the construction of additions and improvements to the system. On January 19, 2012, the U.S. Department of Agriculture Rural Development purchased the entire issue at 3.75% interest rate. The bonds are payable and secured by a pledge of revenues derived from the operation of the system.

Waterworks Refunding Revenue Loan, Series 2010C

On June 10, 2010, the District issued Waterworks Refunding Revenue Loan, Series 2010C in the amount of $1,790,000 with an interest rate of 2.2%-4.325% for the purpose of refunding and retiring the outstanding Waterworks Revenue Bonds of 1992 and the Waterworks Refunding Revenue Bonds Series 1996, with interest rates of 5.375%-5.5%. The Waterworks Refunding Revenue Loan, Series 2010C were issued at a par amount of $1,790,000 and, after paying issuance cost and discount of $63,590, the net proceeds were $1,726,410. The refunding met the requirements of an in-substance debt defeasance and the Revenue Bonds were removed from the District's long-term debt.

As a result of the refunding, the District reduced its total debt service requirements by $488,774, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $327,270.

Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Bonds, Series 2016D

On November 30, 2016, the District issued Kentucky Rural Water Finance Corporation (KRWFC) Public Projects Refunding and Improvement Bonds, Series 2016D (2016D Bonds) in the amount of $1,845,000 with fixed interest rates ranging from 3.6%-5.1% for the purpose of refunding and retiring the outstanding Waterworks Revenue Bonds of 1994, Waterworks Revenue Bonds of 1996, and Waterworks Revenue Bonds of 2003, with interest rates of 4.375%-5.5%. The 2016D Bonds were issued at a premium of $62,849 and after paying issuance cost, the net proceeds were $1,907,849. The refunding met the requirements of an in-substance debt defeasance and the Revenue Bonds were removed from the District's long-term debt.

As a result of the refunding, the District reduced its total debt service requirements by $203,874, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $145,208.

Waterworks Revenue Bonds, Series 2022

The District authorized the issuance of $3,400,000 in "Waterworks Revenue Bonds" by resolution to finance the construction of additions and improvements to the system. On September 6, 2022, the U.S. Department of Agriculture Rural Development purchased the entire issue at 1.875% interest rate. The bonds are payable and secured by a pledge of revenues derived from the operation of the system.

Long-term debt activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Increases	Reductions	Ending Balance	Due Within One Year
Waterworks refunding loan series 2010C	$ 615,000	$ -	$ (130,000)	$ 485,000	$ 40,000
Water revenue bonds series 2011	1,662,000	-	(29,000)	1,633,000	30,500
Water revenue bonds series 2011A	1,343,000	-	(27,000)	1,316,000	28,000
KRWFC Refunding Bonds, Series 2016D	1,575,000	-	(65,000)	1,510,000	70,000
Water revenue bonds series 2022	3,400,000	-	(58,000)	3,342,000	59,000
Bonds payable total	8,595,000	-	(309,000)	8,286,000	227,500
Bond Premium, Series 2016D	48,688	-	(2,328)	46,360	-
Long-term debt total	$ 8,643,688	$ -	$ (311,328)	$ 8,332,360	$ 227,500

The future maturity amounts and related interest costs for all long-term debt are as follows:

Year Ending	Bonds	
December 31,	Principal	Interest
2024	$ 227,500	$ 227,644
2025	235,500	220,070
2026	249,000	211,670
2027	253,000	202,796
2028	266,500	194,078
2029-33	1,427,000	827,097
2034-38	1,191,000	612,590
2039-43	1,312,000	424,335
2044-48	1,149,500	240,690
2049-53	978,500	104,500
2054-58	535,000	73,733
2059-63	461,500	21,749
Total	$ 8,286,000	$ 3,360,952

NOTE 6. WATER RATES

The overall water rate, effective September 15, 2023, for the year ending December 31, 2023 was $20.48 per thousand gallons for the first 1,000 gallons of water consumed and various amounts per thousand gallons in excess of 1,000 gallons. The minimum water bill, which includes 1,000 gallons of water consumption, is $20.48 per month.

The number of customer accounts billed during December 2023 was 4,820.

NOTE 7. OTHER OPERATING REVENUES

Other miscellaneous operating revenues consisted of the following for the year ended December 31, 2023:

Penalty Charges	$ 32,899
Service Charges	19,100
Miscellaneous	29,239
Total	$ 81,238

NOTE 8. RISK RETENTION

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 risks of loss. There were not significant reductions in insurance coverage in 2023 from coverage in the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no presented claim liabilities at December 31, 2023.

NOTE 9. RETIREMENT

The District is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension 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 retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2023, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2023, participating employers contributed 26.79% of each employee’s wages from January 1, 2023 to June 30, 2023, and 23.34% of each employee’s wages from July 1, 2023 to December 31, 2023, which is equal to the actuarially determined rate set by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% of each employee’s wages from January 1, 2022 to June 30, 2022, and 26.79% of each employee’s wages from July 1, 2022 to December 31, 2022, which is equal to the actuarially determined rate set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2015, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed $155,827 for the year ended December 31, 2023, or 100% of the required contribution. The contribution was allocated $155,827 to the CERS pension fund and $0 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2023, the District reported a liability of $1,363,123 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2023. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2023, the District’s proportion was .021244 percent, which was equal to its proportion measured as of June 30, 2023. At December 31, 2022, the District’s proportion was .020531 percent, which was equal to its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the District recognized pension expense of $(35,525). At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 70,566	$ 3,704
Change of assumptions	-	124,931
Net differences between projected and actual earnings on Plan investments	147,256	165,850
Changes in proportion and differences between District contributions and proportionate share of contributions	32,534	4,833
District contributions subsequent to the measurement date	155,827	-
Total	$ 406,183	$ 299,318

The $155,827 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2024	$ (29,047)
2025	(37,149)
2026	30,430
2027	(13,196)

Actuarial Assumptions – The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50% (2.30% in prior year)
Payroll growth	2.00%
Salary increases	3.30 to 10.30% varied by service
Investment rate of return	6.50%, net of Plan investment expense, including inflation (6.25% in prior year)

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period ending June 30, 2022.

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

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Special Credit/High Yield	10.00%	3.65%
Core Fixed Income	10.00%	2.45%
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Cash	0.00%	1.39%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 6.50% (6.25% in prior year). The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate of 6.50% 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 28 years (closed) amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rates are determined on an annual basis. The discount rate determination does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.50 percent) or 1 percentage-point higher (7.50 percent) than the current rate:

	Discount rate	Nonhazardous
1% decrease	5.25%	1,065,693
Current discount rate	6.25%	1,363,123
1% increase	7.25%	1,721,025

Payable to the Pension Plan – At December 31, 2023, the District reported a payable of $14,938 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2023. The payable includes both the pension and insurance contribution allocation.

NOTE 10. OTHER POSTEMPLOYMENT BENEFIT PLAN

The District is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit other postemployment benefit 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. Health insurance benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – For the year ended December 31, 2023, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2023, participating employers contributed 26.79% of each employee's wages from January 1, 2023 to June 30, 2023, and 23.34% of each employee's wages from July 1, 2023 to December 31, 2023, which is equal to the actuarially determined rate set by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% of each employee's wages from January 1, 2022 to June 30, 2022, and 26.79% of each employee's wages from July 1, 2022 to December 31, 2022, which is equal to the actuarially determined rate set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed $155,827 for the year ended December 31, 2023, or 100% of the required contribution. The contribution was allocated $155,827 to the CERS pension fund and $0 to the CERS insurance fund.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2023, the District reported an asset of $29,331 for its proportionate share of the net OPEB asset. The net OPEB liability (asset) was measured as of June 30, 2022, and the total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date and rolled forward to June 30, 2023. The District's proportion of the net OPEB liability (asset) was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2023, the District's proportion was .021244 percent, which was equal to its proportion measured as of June 30, 2023. At December 31, 2022, the District's proportion was .020527 percent, which was equal to its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the District recognized OPEB expense of $(51,295). At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 20,448	$ 416,469
Changes of assumptions	57,721	40,226
Net difference between projected and actual earnings on Plan investments	54,892	61,699
Changes in proportion and differences between District contributions and proportionate share of contributions	26,587	5,933
District contributions subsequent to the measurement date	-	-
Total	$ 159,648	$ 524,327

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending December 31,	
2024	$ (83,715)
2025	(113,126)
2026	(89,943)
2027	(77,895)

Actuarial Assumptions – The total OPEB liability (asset) in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50% (2.30% in prior year)
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30% varied by service
Investment rate of return	6.50% (6.25% in prior year)
Healthcare trend rates:	
Pre - 65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	Initial trend starting at 8.50% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period ending June 30, 2022.

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

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Healthcare Trend Rate – The following presents the District's proportionate share of the net OPEB liability (asset) calculated using the health care trend rate described above, as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Nonhazardous
1% decrease	(4,011)
Current healthcare tend rate	(29,331)
1% increase	50,122

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Special Credit/High Yield	10.00%	3.65%
Core Fixed Income	10.00%	2.45%
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Cash	0.00%	1.39%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability (asset) was 5.93 percent (5.70 percent in prior year). The projection of cash flows used to determine the single discount rate assumed that local employers would contribute the actuarially determined contribution each year calculated in accordance with the current funding policy.

The discount rate uses an expected rate of return of 6.50%, and a municipal bond rate of 3.86%, as reported in the Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2023. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The District's proportionate share of the implicit subsidy was $9,580 at December 31, 2023.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate – The following presents the District's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 5.93 percent, as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (4.93 percent) or 1-percentage-point higher (6.93 percent) than the current rate:

	Nonhazardous
1% decrease	55,043
Current discount rate	(29,331)
1% increase	(99,984)

Payable to the Pension Plan – At December 31, 2023, the District reported a payable of $14,938 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2023. The payable includes both the pension and insurance contribution allocation.

NOTE 11. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. In prior years, the Internal Revenue Code specified that the plan's assets were the property of the District until paid or made available to participants, subject only on an equal basis to the claims of the Authority's creditors. A 1996 federal law now requires all assets and income of Internal Revenue Code Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries.

Assets of the District's plan are administered by Kentucky Deferred Compensation under contract with the District. The administrator amended the plan as of January 1, 1998, to comply with the new federal law. Consequently, the plan's assets and liabilities are not reflected in the District's financial statements.

NOTE 12. CONTINGENCIES

As of December 31, 2023, the District did not have any pending litigation or potential non-disclosed liabilities.

The North Mercer Water District participates in federal loan programs, which are governed by various rules of the grantor agency. Costs charged to the program are subject to audit and adjustment by the grantor agency; therefore, to the extent that the District has not complied with the rules and regulations governing these programs, refunds of any money received may be required. In the opinion of the District, there are no significant contingent liabilities relating to the compliance with the rules and regulations governing the respective programs.

NOTE 13. PROJECT COMMITMENTS

The District is in the early design and engineering phase of a water line replacement project. The total costs of the project are estimated to be approximately $4,800,000. The funding for the project will be from the following sources:

CDBG Grant	$ 1,000,000
Rural Development Loan	3,400,000
Cares Act CWF Grant	400,000
Total Funding	$ 4,800,000

Total costs spent on the project at December 31, 2023, are $4,587,867 and are included in construction in progress on the statement of net position.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Ten Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability	0.021244%	0.020531%	0.020816%	0.019489%	0.017912%	0.018310%	0.016128%	0.017107%	0.016963%	0.016963%
District's proportionate share of the net pension liability (asset)	$ 1,363,123	$ 1,484,189	$ 1,327,183	$ 1,494,790	$ 1,259,759	$ 1,115,135	$ 944,021	$ 842,261	$ 550,383	$ 621,321
District's covered employee payroll	$ 620,700	$ 613,627	$ 574,661	$ 543,982	$ 453,207	$ 450,193	$ 437,991	$ 415,444	$ 415,954	$ 389,169
District's share of the net pension liability (asset) as a percentage of its covered payroll	219.61%	241.87%	230.95%	274.79%	277.97%	247.70%	215.53%	202.74%	132.32%	159.65%
Plan fiduciary net position as a percentage of the total pension liability	57.48%	52.42%	57.33%	47.81%	50.45%	49.26%	53.30%	55.50%	66.80%	61.22%

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF PENSION PLAN CONTRIBUTIONS
Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required employer contribution	$ 155,827	$ 137,783	$ 103,958	$ 104,988	$ 87,469	$ 69,128	$ 62,629	$ 51,598	$ 53,034	$ 53,472
Contributions relative to contractually required employer contribution	155,827	137,783	103,958	104,988	87,469	69,128	62,629	51,598	53,034	53,472
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 620,700	$ 613,627	$ 529,157	$ 543,982	$ 453,207	$ 450,193	$ 437,991	$ 415,444	$ 415,954	$ 389,169
Employer contributions as a percentage of covered-employee payroll	25.11%	22.45%	19.65%	19.30%	19.30%	15.36%	14.30%	12.42%	12.75%	13.74%

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Seven Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017
District's proportion of the net OPEB liability (asset)	0.021244%	0.020527%	0.020811%	0.019483%	0.017907%	0.018309%	0.016128%
District's proportionate share of the net OPEB liability (asset)	$ (29,331)	$ 405,103	$ 398,416	$ 470,455	$ 301,188	$ 325,073	$ 324,228
District's covered employee payroll	$ 620,700	$ 613,627	$ 529,157	$ 543,982	$ 453,207	$ 450,193	$ 437,991
District's share of the net OPEB liability (asset) as a percentage of its covered payroll	-4.73%	66.02%	75.29%	86.48%	66.46%	72.21%	74.03%
Plan fiduciary net position as a percentage of the total OPEB liability	104.23%	60.95%	62.91%	51.67%	60.44%	64.24%	53.30%

* The above schedule will present 10 years of historical data once available.

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF OPEB CONTRIBUTIONS
Last Seven Fiscal Years

	2023	2022	2021	2020	2019	2018	2017
Contractually required employer contribution	$ -	$ 19,961	$ 28,384	$ 25,894	$ 21,573	$ 22,417	$ 20,328
Contributions relative to contractually required employer contribution	-	19,961	28,384	25,894	21,573	22,417	20,328
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 620,700	$ 613,627	$ 529,157	$ 543,982	$ 453,207	$ 450,193	$ 437,991
Employer contributions as a percentage of covered-employee payroll	0.00%	3.25%	5.36%	4.76%	4.76%	4.98%	4.64%

* The above schedule will present 10 years of historical data once available.

Note 1. General Information

Contributions
Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll
The District's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the District's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

Measurement Date
The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

Note 2. Changes of Assumptions (Measurement Date)

June 30, 2023 – Pension – Hazardous and Nonhazardous
The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023:

- The assumed rate of return was increased from 6.25% to 6.50%.
- The assumed rate of inflation was increased from 2.30% to 2.50%.

June 30, 2022 –OPEB Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The single discount rate used to calculate the OPEB liability was increased from 5.20% to 5.70% for non-hazardous and from 5.05% to 5.61% for hazardous.
- The healthcare trend rate starting at 6.20% at January 1, 2024, 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 9.00% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for post-65.

June 30, 2021 –OPEB Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for pension. 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.

June 30, 2020 –OPEB Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension. 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.

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous
The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average.

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for either pension or OPEB.

June 30, 2017 – Pension – Hazardous and Nonhazardous
The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016, for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous
The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous
There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

COMPLIANCE SECTION

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

Chairman and Commissioners
North Mercer Water District
Salvisa, KY 40372

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the North Mercer Water District (the District) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 25, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 25, 2024