

Report

of

**Muhlenberg County Water District #3
Bremen, Kentucky**

For The Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Muhlenberg County Water District Number 3
Bremen, Kentucky

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of Muhlenberg County Water District Number 3 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 financial position of Muhlenberg County Water District Number 3 as of December 31, 2021 and 2020, and the 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 Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the 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 Number 3 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Number 3'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' Responsibility 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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the 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 Number 3'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 Number 3'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 on pages 4-8 and pension and OPEB schedules on pages 28-31 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not 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 July 8, 2022, on our consideration of Muhlenberg County Water District Number 3'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 Muhlenberg County Water District Number 3'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 Number 3's internal control over financial reporting and compliance.

Knight Wagner, P.C.

Madisonville, Kentucky
July 8, 2022

MUHLENBERG COUNTY WATER DISTRICT NUMBER 3
Management's Discussion and Analysis
December 31, 2021 and 2020

The discussion and analysis of the Muhlenberg County Water District Number 3's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2021 and 2020. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2021

- The District's change in net position was a increase of \$7.1 thousand for the year ended December 31, 2021.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statements of Net Position include information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snap-shot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statements of Revenues, Expenses, and Changes in Fund Net Position include the District's revenues and expenses for the years ended December 31, 2021 and 2020. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statements of Cash Flows include information on the District's cash receipts and payments and the changes in cash balances resulting from operating activities, investing activities, and financing activities.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

District Financial Analysis

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position
(in thousands)

	<u>2021</u>	<u>2020</u>	dollar change	percent change	<u>2019</u>	dollar change	percent change
Current assets	\$1,019.9	\$ 910.1	\$ 109.8	12.1%	\$ 834.8	\$ 75.3	9.0%
Capital assets	2,214.3	2,172.8	41.5	1.9%	2,109.7	63.1	3.0%
Other noncurrent assets	<u>102.9</u>	<u>100.2</u>	2.7	2.7%	<u>185.2</u>	(85.0)	(45.9%)
Total assets	<u>3,337.1</u>	<u>3,183.1</u>	154.0	4.8%	<u>3,129.7</u>	53.4	1.7%
Total deferred outflows of resources	<u>241.2</u>	<u>233.7</u>	7.5	3.2%	<u>168.4</u>	65.3	38.8%
Current liabilities	167.3	68.4	98.9	144.6%	73.7	(5.3)	(7.2%)
Long-term liabilities	<u>887.4</u>	<u>991.0</u>	(103.6)	(10.5%)	<u>812.1</u>	178.9	22.0%
Total liabilities	<u>1,054.7</u>	<u>1,059.4</u>	(4.7)	(0.4%)	<u>885.8</u>	173.6	19.6%
Total deferred inflows of resources	<u>228.9</u>	<u>69.8</u>	159.1	227.9%	<u>102.8</u>	(33.0)	(32.1%)
Net assets invested in capital assets, net of related debt	2,135.4	2,172.9	(37.5)	(1.7%)	2,109.7	63.2	3.0%
Unrestricted net position	<u>159.3</u>	<u>114.7</u>	44.6	38.9%	<u>199.8</u>	(85.1)	(42.6%)
Total net position	<u>\$2,294.7</u>	<u>\$2,287.6</u>	\$ 7.1	0.3%	<u>\$2,309.5</u>	(\$ 21.9)	(0.9%)

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2.2947 million at the close of the current year.

2020 to 2021

As shown in table 1, the District's total assets increased \$154,000 from \$3,183,100 to \$3,337,100. Current assets increased \$109,800. This was due to increases in cash and cash equivalents which increased \$96,900. The District's cash flow statement shows a significant increase in cash. Capital assets increased \$41,500 as capital asset acquisitions out paced depreciation expense.

Deferred outflows of resources increased \$7,500 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements for both pensions and OPEB.

The District's long-term liabilities decreased \$103,600. Net pension liability decreased \$72,800 and net OPEB liability decreased \$32,600, also due to the District's proportional share of CERS valuation measurements.

Deferred inflows of resources increased \$159,100 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements for both pensions and OPEB.

2019 to 2020

As shown in table 1, the District's total assets increased by \$53,400 from \$3,129,700 to \$3,183,100. Current assets increased \$75,300. This was due to increases in cash and cash equivalents which increased \$68,200. The District's cash flow statement shows a significant increase in cash from operating activities. This is primarily due to the District selling water for a full year at increased water rates which were approved in 2019. Capital assets increased \$63,100 as capital asset acquisitions out paced depreciation expense. Other noncurrent assets decreased \$85,000 as restricted cash accounts were used to purchase the capital asset acquisitions.

Deferred outflows of resources increased \$65,300 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements for both pensions and OPEB.

The District's long-term liabilities increased \$178,900. Net pension liability increased \$98,000 and net OPEB liability increased \$79,500, also due to the District's proportional share of CERS valuation measurements.

Deferred inflows of resources decreased \$33,000 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements for both pensions and OPEB.

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position is presented below.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position
(in thousands)

	<u>2021</u>	<u>2020</u>	<u>dollar change</u>	<u>percent change</u>	<u>2019</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$1,327.7	\$1,292.0	\$ 35.7	2.8%	\$1,215.4	\$ 76.6	6.3%
Nonoperating revenues	<u>6.5</u>	<u>7.5</u>	(1.0)	(13.3%)	<u>5.6</u>	1.9	33.9%
Total revenues	<u>1,334.2</u>	<u>1,299.5</u>	34.7	2.7%	<u>1,221.0</u>	78.5	6.4%
Operating expenses	1,337.7	1,331.2	6.5	0.5%	1,330.6	0.6	0.0%
Nonoperating expenses	<u>0.0</u>	<u>0.2</u>	(0.2)	(100.0%)	<u>0.1</u>	0.1	100.0%
Total expenses	<u>1,337.7</u>	<u>1,331.4</u>	6.3	0.5%	<u>1,330.7</u>	0.7	0.1%
Income (loss) before capital contributions	(3.5)	(31.9)	28.4	89.0%	(109.7)	77.8	70.9%
Capital contributions	<u>10.6</u>	<u>10.0</u>	0.6	6.0%	<u>9.5</u>	0.5	5.3%
Changes in net position	7.1	(21.9)	29.0	132.4%	(100.2)	78.3	78.1%
Beginning net position	<u>2,287.6</u>	<u>2,309.5</u>	(21.9)	(0.9%)	<u>2,409.7</u>	(100.2)	(4.2%)
Ending net position	<u>\$2,294.7</u>	<u>\$2,287.6</u>	\$ 7.1	0.3%	<u>\$2,309.5</u>	(\$ 21.9)	(0.9%)

2020 to 2021

As shown in table 2, the District's operating revenues increased \$35,700. Water sales remained similar to the prior year increasing \$1,400. Other operating revenues increased \$34,200 primarily due to state restrictions on late charge penalties during the Covid-19 pandemic being lifted.

The District's operating expenses remained similar to the prior year. Employee benefits decreased \$41,200 due to decreases in pension expense as determined by CERS. Water purchases increased \$30,900 compared to the prior year.

Capital contributions increased \$950 remaining similar to the prior year.

Changes in net position increased \$7,100 due to the net effect of the above changes.

2019 to 2020

As shown in table 2, the District's operating revenues increased \$76,600. Water sales increased \$99,000 primarily due to a 2019 26.1% increase in water rates. The District experienced a full year effect of the rate increase in 2020. Other operating revenues decreased \$22,600 primarily due to state restrictions on late charge penalties during the Covid-19 pandemic.

The District's operating expenses remained similar to the prior year. Employee benefits increased \$34,500 due to increases in pension expense as determined by CERS. Contract services decreased \$43,600 primarily due to decreased legal fees.

Capital contributions increased \$500 remaining similar to the prior year.

Changes in net position decreased \$21,900 due to the net effect of the above changes.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2021 the District had \$2,214,266 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$41,395 from the prior year.

Significant expenditures during the year included \$78,916 on tank improvements and \$44,569 on meters.

At December 31, 2020 the District had \$2,172,871 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$63,178 from the prior year.

Significant expenditures during the year included \$73,400 on pump station improvements, \$12,540 on a SCADA update, and \$27,364 on the purchase of a new truck.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

Long-Term Debt

At December 31, 2021, the District had \$23,030, net additions of \$2,030, in long-term liabilities which consisted of customer deposits. There were no new borrowings.

At December 31, 2020, the District had \$21,000, net additions of \$945, in long-term liabilities which consisted of customer deposits. There were no new borrowings.

Additional information on the District's long-term debt can be found in Note F of the financial statements.

Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Muhlenberg County Water District Number 3, 4815 Main Street, Bremen, Kentucky 42325.

Muhlenberg County Water District Number 3
Statement of Net Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 807,440	\$ 710,499
Accounts receivable	168,552	166,427
Material and parts inventory	33,086	22,673
Prepaid expenses	<u>10,833</u>	<u>10,453</u>
Total current assets	<u>1,019,911</u>	<u>910,052</u>
Noncurrent assets		
Restricted cash and cash equivalents	102,907	100,217
Capital assets:		
Nondepreciable	22,950	22,950
Depreciable, net of accumulated depreciation	<u>2,191,317</u>	<u>2,149,922</u>
Total noncurrent assets	<u>2,317,174</u>	<u>2,273,089</u>
Total assets	<u>3,337,085</u>	<u>3,183,141</u>
<u>Deferred outflows of resources</u>		
Deferred outflows of resources-pensions	122,083	128,542
Deferred outflows of resources-OPEB	<u>119,124</u>	<u>105,134</u>
Total deferred outflows of resources	<u>241,207</u>	<u>233,676</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	57,990	49,548
Accrued taxes and other payables	15,598	2,642
Accumulated compensated absences	<u>9,755</u>	<u>11,317</u>
	<u>83,343</u>	<u>63,507</u>
Current liabilities payable from restricted assets		
Construction project payable	78,916	0
Customer deposits	<u>5,035</u>	<u>4,924</u>
	<u>83,951</u>	<u>4,924</u>
Total current liabilities	<u>167,294</u>	<u>68,431</u>
Long-term liabilities		
Net pension liability	668,692	741,528
Net OPEB liability	200,749	233,380
Customer deposits	<u>17,995</u>	<u>16,076</u>
Total noncurrent liabilities	<u>887,436</u>	<u>990,984</u>
Total liabilities	<u>1,054,730</u>	<u>1,059,415</u>
<u>Deferred inflows of resources</u>		
Deferred inflows of resources-pensions	122,839	19,752
Deferred inflows of resources-OPEB	<u>106,048</u>	<u>50,079</u>
Total deferred inflows of resources	<u>228,887</u>	<u>69,831</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	2,135,351	2,172,872
Unrestricted	<u>159,324</u>	<u>114,699</u>
Total net position	<u>\$2,294,675</u>	<u>\$2,287,571</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Statement of Revenues, Expenses and Changes in Fund Net Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues		
Water sales	\$1,271,927	\$1,270,486
Other operating revenues	<u>55,814</u>	<u>21,572</u>
Total operating revenues	<u>1,327,741</u>	<u>1,292,058</u>
Operating expenses		
Purchased water	580,506	549,595
Salaries and wages	303,147	286,656
Depreciation	112,425	106,187
Employee benefits	146,892	188,043
Transportation	12,304	11,004
Contract services	39,003	46,462
Taxes	20,359	22,066
Purchased power	23,612	20,167
Materials and supplies	36,393	41,850
Insurance	21,100	20,245
Miscellaneous	31,469	31,550
Regulatory commission expense	2,599	2,442
Uncollectible accounts	<u>7,905</u>	<u>4,913</u>
Total operating expenses	<u>1,337,714</u>	<u>1,331,180</u>
Operating income (loss)	(9,973)	(39,122)
Nonoperating revenues (expenses)		
Interest income	4,793	7,463
Interest expense	(3)	(4)
Gains (losses) on disposition of capital assets	<u>1,737</u>	<u>(204)</u>
Total nonoperating revenues (expenses)	<u>6,527</u>	<u>7,255</u>
Income (loss) before contributions	(3,446)	(31,867)
Capital contributions-tap fees	10,550	9,600
Capital contributions-customers	<u>0</u>	<u>358</u>
Change in net position	7,104	(21,909)
Net position beginning of year	<u>2,287,571</u>	<u>2,309,480</u>
Net position end of year	<u><u>\$2,294,675</u></u>	<u><u>\$2,287,571</u></u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Statement of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$1,261,897	\$1,260,957
Cash payments to suppliers for goods and services	(857,098)	(860,424)
Cash payments to employees for services	(303,147)	(286,656)
Other operating revenues	<u>55,814</u>	<u>21,572</u>
Net cash provided (used) by operating activities	157,466	135,449
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	(74,915)	(171,269)
Interest paid on customer deposits	0	(4)
Capital contributions received from customers	10,550	9,958
Proceeds received on disposition of capital assets	<u>1,737</u>	<u>1,701</u>
Net cash provided (used) for capital and related financing activities	(62,628)	(159,614)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>4,793</u>	<u>7,463</u>
Net cash provided (used) for investing activities	4,793	7,463
Net increase (decrease) in cash and cash equivalents	99,631	(16,702)
Cash and cash equivalents at beginning of year	<u>810,716</u>	<u>827,418</u>
Cash and cash equivalents at end of year	<u>\$ 910,347</u>	<u>\$ 810,716</u>
 <u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	(\$ 9,973)	(\$ 39,122)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	112,425	106,187
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,125)	(4,616)
(Increase) decrease in inventory	(10,413)	(2,025)
(Increase) decrease in prepaid expenses	(380)	(339)
(Increase) decrease in deferred outflows-pensions	6,459	(12,196)
(Increase) decrease in deferred outflows-OPEB	(13,990)	(53,059)
Increase (decrease) in accounts payable	8,440	(8,925)
Increase (decrease) in accrued expenses	12,966	1,411
Increase (decrease) in net pension liability	(72,836)	98,004
Increase (decrease) in net OPEB liability	(32,631)	79,515
Increase (decrease) in customer deposits	2,030	945
Increase (decrease) in accumulated compensated absences	(1,562)	2,666
Increase (decrease) in deferred inflows-pensions	103,087	(20,811)
Increase (decrease) in deferred inflows-OPEB	<u>55,969</u>	<u>(12,186)</u>
Total adjustments	<u>167,439</u>	<u>174,571</u>
Net cash provided by operating activities	<u>\$ 157,466</u>	<u>\$ 135,449</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Muhlenberg County Water District Number 3 (the "District") conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies:

The Financial Reporting Entity

Muhlenberg County Water District Number 3 was created on April 24, 1967, under the provisions of Chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at Bremen, Kentucky. The District is composed of three commissioners who are appointed by the Muhlenberg County Judge Executive and provides water to its members in and around Muhlenberg County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statements No. 14 and 61. The District has no component units.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. Net position not otherwise classified as restricted, are shown as unrestricted. The statements of revenue, expenses, and changes in net position present increases (revenues) and decreases (expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2021 and 2020

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for 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.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits are interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less. The District does not have a formal deposit and investment policy for credit risk, custodial credit risk, or limitations on deposits and investments.

Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2021 and 2020.

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	2 to 10 years
Vehicles	5 years

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Restricted Net Position

Restricted net position is cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements. The District currently doesn't have any restricted net position.

Long-Term Liabilities

Long-term debt is reported as liabilities in the statement of net position. Long-term debt is reported at face value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (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.

Uncollectible Accounts

All accounts receivable are considered by management to be collectible, therefore no provision for uncollectible accounts has been established. Uncollectible accounts are expensed using the direct write-off method.

Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (1) in writing, (2) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

Also by Kentucky law, the District is allowed to invest as specified in KRS 66.480 which includes U. S. Treasury and its Obligations, certain federal investments, repurchase agreements, commercial banks' certificates of deposit, and savings and loan deposits.

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

On December 31, 2021, the reconciled balance of the District's deposits totaled \$910,347 and the bank balances were \$918,708. Of the bank balances \$500,000 was covered by federal depository insurance (category 1). Also of the bank balances, \$418,708 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

On December 31, 2020, the reconciled balance of the District's deposits totaled \$810,716 and the bank balances were \$817,190. Of the bank balances \$500,000 was covered by federal depository insurance (category 1). Also of the bank balances, \$317,190 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance, which represents the amount of unexpired insurance, which the District had previously paid for at the balance sheet date.

At December 31, 2021, the District's prepaid expenses consisted of \$10,833 of insurance. At December 31, 2020, the District's prepaid expenses consisted of \$10,453 of insurance.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt (which has been fully paid), cash restricted for future operations, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	<u>2021</u>	<u>2020</u>
Customer meter deposit fund	\$ 27,005	\$ 24,973
Construction fund	<u>75,902</u>	<u>75,244</u>
Totals	<u>\$ 102,907</u>	<u>\$ 100,217</u>

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2021 and 2020, were as follows:

	<u>Balances</u> <u>12/31/19</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/20</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/21</u>
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 22,950	\$ 0	\$ 0	\$ 22,950	\$ 0	\$ 0	\$ 22,950
Construction in progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>22,950</u>	<u>0</u>	<u>0</u>	<u>22,950</u>	<u>0</u>	<u>0</u>	<u>22,950</u>
Capital assets being depreciated							
Structures, improvements, & water system	3,745,548	119,568	19,430	3,845,686	129,790	9,322	3,966,154
Office furniture & equipment	72,198	2,461	0	74,659	17,941	0	92,600
Vehicles & equipment	117,254	27,364	0	144,618	0	0	144,618
Machinery & equipment	<u>529,736</u>	<u>21,876</u>	<u>1,840</u>	<u>549,772</u>	<u>5,604</u>	<u>0</u>	<u>555,376</u>
Total	<u>4,464,736</u>	<u>171,269</u>	<u>21,270</u>	<u>4,614,735</u>	<u>153,335</u>	<u>9,322</u>	<u>4,758,748</u>
Total capital assets	<u>4,487,686</u>	<u>171,269</u>	<u>21,270</u>	<u>4,637,685</u>	<u>153,335</u>	<u>9,322</u>	<u>4,781,698</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	1,937,872	68,708	17,526	1,989,054	72,738	9,807	2,051,985
Office furniture & equipment	54,997	4,328	0	59,325	5,165	0	64,490
Vehicles & equipment	88,956	10,792	0	99,748	11,704	0	111,452
Machinery & equipment	<u>296,168</u>	<u>22,359</u>	<u>1,840</u>	<u>316,687</u>	<u>22,818</u>	<u>0</u>	<u>339,505</u>
Total accumulated depreciation	<u>2,377,993</u>	<u>106,187</u>	<u>19,366</u>	<u>2,464,814</u>	<u>112,425</u>	<u>9,807</u>	<u>2,567,432</u>
Total business-type activities capital assets, net	<u>\$2,109,693</u>	<u>\$ 65,082</u>	<u>\$ 1,904</u>	<u>\$2,172,871</u>	<u>\$ 40,910</u>	<u>(\$ 485)</u>	<u>\$2,214,266</u>

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE F – LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2021 and 2020, were as follows:

	Balances			Balances			Balances		Amounts
	<u>12/31/19</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/20</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/21</u>	<u>Due Within</u>	<u>One Year</u>
Customer Deposits	\$ 20,055	\$ 5,705	\$ 4,760	\$ 21,000	\$ 7,895	\$ 5,865	\$ 23,030	\$ 5,035	
Business-type Activities Long- Term Liabilities	\$ 20,055	\$ 5,705	\$ 4,760	\$ 21,000	\$ 7,895	\$ 5,865	\$ 23,030	\$ 5,035	

NOTE G - ACCUMULATED COMPENSATED ABSENCES

Effective March 2011 employees are no longer permitted to accumulate earned but unused vacation days beyond one year. The employees must use or cash out their yearly allotment of vacation time earned by the annual anniversary date of their employment.

NOTE H - EMPLOYEES' PENSION PLAN

General Information about the Pension Plan

Plan Description. The District and covered employees contribute to the County Employers 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. Copies may be obtained by writing to Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-696-8800.

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. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 members are those that began participation 9/1/2008 through 12/31/2013, and Tier 3 are those members that began participation on or after 1/1/2014.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE H - EMPLOYEES' PENSION PLAN continued

Benefits provided-non hazardous. Tier 1 non-hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available prior to age 65 with at least 25 but less than 27 years of service credit and at age 55 with at least 5 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 non-hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 non-hazardous members are also eligible to retire based on the rule of 87 or at age 65 with fewer years of service credit. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

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. The District was required to contribute 26.95% or \$34,250 of each employee's creditable compensation for the last six months of the year ended December 31, 2021. Of the 26.95%, 21.17% or \$26,904 was comprised of amounts for pensions. The District was required to contribute 24.06% or \$64,450 of each employee's creditable compensation for the first six months of the year ended December 31, 2021 and for the final six months of the year ended December 31, 2020. Of the 24.06%, 19.30% or \$51,699 was comprised of amounts for pensions. The District was required to contribute 24.06% or \$59,585 of each employee's creditable compensation for the first six months of the year ended December 31, 2020 and for the final six months of the year ended December 31, 2019. Of the 24.06%, 19.30% or \$47,797 was comprised of amounts for pensions. The District was required to contribute 21.43% or \$23,938 of each employee's creditable compensation for the first six months of the year ended December 31, 2019. Of the 21.43%, 16.22% or \$18,076 was comprised of amounts for pensions. The District's payable to the plan at December 31, 2021 and 2020 was \$0 and \$0, respectively, which consisted of employees' withholdings and legally required contributions for the month of December.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE H - EMPLOYEES' PENSION PLAN continued

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

At December 31, 2021, the District reported a liability of \$668,692 for its proportionate share of the net pension liability. The District's net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation date of June 30, 2019 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2021. At December 31, 2020, the District reported a liability of \$741,528 for its proportionate share of the net pension liability. The District's net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation date of June 30, 2019 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2020.

For the year ended December 31, 2021, the District recognized pension expense of \$89,803. For the year ended December 31, 2020, the District recognized pension expense of \$115,879. 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:

	12/31/2021		12/31/2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 25,941	\$ 115,066	\$ 32,143	\$ 13,587
Net difference between expected and actual experience	7,679	6,490	18,491	-
Changes in proportional and differences between employer contributions and proportional share of contributions	52,584	1,283	23,437	6,165
Change of assumptions	8,975	-	28,955	-
District contributions subsequent to the measurement date	26,904	-	25,516	-
Total	<u>\$ 122,083</u>	<u>\$ 122,839</u>	<u>\$ 128,542</u>	<u>\$ 19,752</u>

\$26,904 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 year ended December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2022	\$ 19,339
2023	(401)
2024	(18,688)
2025	(27,909)

Actuarial assumptions.

The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date as of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ended June 30, 2021 and 2020, using generally accepted actuarial principles.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE H - EMPLOYEES' PENSION PLAN continued

2021

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25%
Payroll growth rate	2.00%

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.

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U S Equity	21.75%	5.70%
Non U S Equity	21.75	6.35
Private Equity	10.00	9.70
Specially Credit/High Yield	15.00	2.80
Core Bonds	10.00	0.00
Cash	1.50	-0.60
Real Estate	10.00	5.40
Opportunistic	0.00	N/A
Real Return	<u>10.00</u>	<u>4.55</u>
Expected real return	100.00%	5.00%
Long term inflation assumption	=====	<u>2.30</u>
Expected nominal rate of portfolio		7.30%

Discount rate. For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation each future year. The discount rate does not use a municipal bond rate.

Muhlenberg County Water District Number 3
 Notes to Financial Statements
 December 31, 2021 and 2020

NOTE H - EMPLOYEES' PENSION PLAN continued

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25% for June 30, 2021 and 6.25% for June 30, 2020, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25% and 5.25%) or 1-percentage-point higher (7.25% and 7.25%) than the current rate.

	1% Decrease <u>(5.25%)</u>	Discount Rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
District's 2021 proportionate share of the net pension liability	\$ 857,630	\$ 668,692	\$ 512,351
	1% Decrease <u>(5.25%)</u>	Discount Rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
District's 2020 proportionate share of the net pension liability	\$ 914,465	\$ 741,528	\$ 598,329

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

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Plan Description. The District and covered employees contribute to the County Employers 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. Copies may be obtained by writing to Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-696-8800.

Benefits provided. The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. There are currently three benefit tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 members are those that began participation 9/1/2008 through 12/31/2013, and Tier 3 are those members that began participation on or after 1/1/2014.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

Benefits provided-non hazardous. Non-hazardous members are eligible for health insurance coverage upon retirement. Each year prior to the Open Enrollment period, the KRS board establishes the contribution rate for the following plan year. The monthly contribution rate is based on single coverage under the insurance plan approved by the KPPA Board. To be eligible, tier 1 members must have at least 120 months of service in a state-administered retirement system. If a member retires with less than 120 months of service credit, that member cannot participate in the health plans KPPA offers. If eligible, KPPA will pay a contribution toward the premium based on how many years of service the member had at retirement. For non-hazardous retirees, KPPA pays \$10 toward the monthly premium for each full year of service the member has at retirement. To be eligible, tier 2 members must have at least 150 months of service in a state-administered retirement system. If a member retires with less than 150 months of service credit, that member cannot participate in the health plans KPPA offers. If eligible, KPPA will pay a contribution toward the premium based on how many years of service the member had at retirement. For non-hazardous retirees, KPPA pays \$10 toward the monthly premium for each full year of service the member has at retirement. To be eligible, tier 3 members must have at least 15 years of service in a state-administered retirement system. If eligible, KPPA will pay a contribution toward the premium based on how many years of service the member had at retirement. For non-hazardous retirees, KPPA pays \$10 toward the monthly premium for each full year of service the member has at retirement.

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 Retirement Systems 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. The District was required to contribute 26.95% or \$34,250 of each employee's creditable compensation for the last six months of the year ended December 31, 2021. Of the 26.95%, 5.78% or \$7,346 was comprised of amounts for insurance. The District was required to contribute 24.06% or \$64,450 of each employee's creditable compensation for the first six months of the year ended December 31, 2021 and for the final six months of the year ended December 31, 2020. Of the 24.06%, 4.76% or \$12,751 was comprised of amounts for insurance. The District was required to contribute 24.06% or \$59,585 of each employee's creditable compensation for the first six months of the year ended December 31, 2020 and for the final six months of the year ended December 31, 2019. Of the 24.06%, 4.76% or \$11,788 was comprised of amounts for insurance. The District was required to contribute 21.48% or \$23,938 of each employee's creditable compensation for the first six months of the year ended December 31, 2019. Of the 21.48%, 5.26% or \$5,862 was comprised of amounts for insurance. The District's payable to the plan at December 31, 2021 and 2020 was \$0 and \$0, respectively, which consisted of employees' withholdings and legally required contributions for the month of December.

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Notes to Financial Statements
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NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

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

At December 31, 2021, the District reported a liability of \$200,749 for its proportionate share of the net OPEB liability. The District's net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2021. At December 31, 2020, the District reported a liability of \$233,380 for its proportionate share of the net OPEB liability. The District's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2020.

For the year ended December 31, 2021, the District recognized OPEB expense of \$29,088. For the year ended December 31, 2020, the District recognized OPEB expense of \$31,677. 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:

	<u>12/31/2021</u>		<u>12/31/2020</u>	
	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows of</u>	<u>Inflows of</u>	<u>Outflows of</u>	<u>Inflows of</u>
	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>
Net difference between projected and actual earnings on OPEB plan investments	\$ 10,114	\$ 41,519	\$ 12,519	\$ 4,762
Net difference between expected and actual experience	31,568	59,937	38,993	39,023
Changes in proportional and differences between employer contributions and proportional share of contributions	16,874	4,405	6,735	6,047
Change of assumptions	53,222	187	40,594	247
District contributions subsequent to the measurement date	7,346	-	6,293	-
Total	<u>\$ 119,124</u>	<u>\$ 106,048</u>	<u>\$ 105,134</u>	<u>\$ 50,079</u>

\$7,346 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 year ended December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2022	\$ 8,185
2023	3,408
2024	3,348
2025	(9,211)

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

Actuarial assumptions.

The total OPEB liability in the June 30, 2021 and 2020 actuarial valuations using standard roll-forward techniques, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Payroll growth rate	2.00%
Inflation	2.30%
Salary increases	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% 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% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

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.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U S Equity	21.75%	5.70%
Non U S Equity	21.75	6.35
Private Equity	10.00	9.70
Specially Credit/High Yield	15.00	2.80
Core Bonds	10.00	0.00
Cash	1.50	-0.60
Real Estate	10.00	5.40
Opportunistic	0.00	N/A
Real Return	10.00	4.55
Expected real return	100.00%	5.00%
Long term inflation assumption		2.30
Expected nominal rate for portfolio		7.30%

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

Discount rate. For CERS, the discount rate used to measure the total OPEB liability was 5.20% for 2021 and 5.34% for 2020.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.20% for June 30, 2021 and 5.34% for June 30, 2020 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% and 4.34%) or 1-percentage-point higher (6.20% and 6.34%) than the current rate.

	1% Decrease <u>(4.20%)</u>	Discount Rate <u>(5.20%)</u>	1% Increase <u>(6.20%)</u>
District's 2021 proportionate share of the net OPEB liability	\$ 275,627	\$ 200,749	\$ 139,299
	1% Decrease <u>(4.34%)</u>	Discount Rate <u>(5.34%)</u>	1% Increase <u>(6.34%)</u>
District's 2020 proportionate share of the net OPEB liability	\$ 299,825	\$ 233,380	\$ 178,807

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

	1% Decrease (5.25% & 4.5% decreasing <u>to 3.05%</u>)	Discount Rate (6.25% & 5.5% decreasing <u>to 4.05%</u>)	1% Increase (7.25% & 6.5% decreasing <u>to 5.05%</u>)
District's 2021 proportionate share of the net OPEB liability	\$ 144,516	\$ 200,749	\$ 268,624
	1% Decrease (6.0% & 4.0% decreasing <u>to 3.05%</u>)	Discount Rate (7.0% & 5.0% decreasing <u>to 4.05%</u>)	1% Increase (8.0% & 6.0% decreasing <u>to 5.05%</u>)
District's 2020 proportionate share of the net OPEB liability	\$ 180,695	\$ 233,380	\$ 297,316

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report of CERS.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2021 and 2020

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K – CONSTRUCTION PROJECT PAYABLE

The District underwent a water tank restoration project which was completed in December 2021. Subsequent to the 2021 year end, the District expended \$78,916 for the project. The \$78,916 amount is shown as Construction Project Payable on the December 31, 2021 balance sheet.

Required Supplementary Information

Muhlenberg County Water District District Number 3
 Schedule of Proportionate Share of the Net Pension Liability
 December 31, 2021 and 2020

	Last 10 years (Dollar amounts in thousands)			
	2021	2020	2019	2018
Total net pension liability for County Employees' Retirement System	\$ 9,037,944	\$ 10,684,945	\$ 9,795,340	\$ 8,508,762
District's proportion of the net pension liability (asset)	0.010488%	0.009665%	0.009150%	0.009376%
District's proportionate share of the net pension liability (asset)	\$ 669	\$ 742	\$ 644	\$ 571
District's covered-employer payroll	\$ 263	\$ 264	\$ 228	\$ 240
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employer payroll	254.50%	281.26%	282.66%	238.23%
Total pension plan's fiduciary net position	\$ 11,480,060	\$ 9,407,031	\$ 9,573,629	\$ 9,367,300
Total pension plan's pension liability	\$ 20,518,004	\$ 20,091,976	\$ 19,368,969	\$ 17,876,062
Total Pension Plan's fiduciary net position as a percentage of the total pension liability	55.95%	46.82%	49.43%	52.40%
	2017	2016	2015	
Total net pension liability for County Employees' Retirement System	\$ 8,090,586	\$ 6,639,560	\$ 5,834,631	
District's proportion of the net pension liability (asset)	0.009638%	0.010000%	0.009410%	
District's proportionate share of the net pension liability (asset)	\$ 564	\$ 493	\$ 405	
District's covered-employer payroll	\$ 230	\$ 237	\$ 220	
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employer payroll	245.80%	207.49%	184.28%	
Total pension plan's fiduciary net position	\$ 8,905,233	\$ 8,151,568	\$ 8,519,002	
Total pension plan's pension liability	\$ 16,995,819	\$ 14,791,128	\$ 14,353,633	
Total Pension Plan's fiduciary net position as a percentage of the total pension liability	52.40%	55.11%	59.35%	

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred

Muhlenberg County Water District Number 3
 Schedule of District Contributions-Pension Plan
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 53,087	\$ 50,882	\$ 40,507	\$ 36,784
Contributions in relation to the actuarially determined contribution	<u>53,087</u>	<u>50,882</u>	<u>40,507</u>	<u>36,784</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered-employee payroll	\$ 262,750	\$ 263,640	\$ 227,664	\$ 239,693
Contributions as a percentage of covered-employee payroll	20.20%	19.30%	17.79%	15.35%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Actuarially determined contribution	\$ 32,611	\$ 30,224	\$ 32,110	
Contributions in relation to the actuarially determined contribution	<u>32,611</u>	<u>30,244</u>	<u>32,110</u>	
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
District's covered-employee payroll	\$ 229,516	\$ 237,399	\$ 219,505	
Contributions as a percentage of covered-employee payroll	14.21%	12.73%	14.63%	

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred

Muhlenberg County Water District District Number 3
 Schedule of Proportionate Share of the Net OPEB Liability
 December 31, 2021 and 2020

	Last 10 years (Dollar amounts in thousands)			
	2021	2020	2019	2018
Total net OPEB liability for County Employees' Retirement System	\$ 2,723,009	\$ 3,338,801	\$ 2,421,815	\$ 2,488,439
District's proportion of the net OPEB liability (asset)	0.010486%	0.009665%	0.009150%	0.009376%
District's proportionate share of the net OPEB liability (asset)	\$ 201	\$ 233	\$ 154	\$ 166
District's covered-employer payroll	\$ 263	\$ 264	\$ 228	\$ 240
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employer payroll	76.40%	88.52%	67.58%	69.17%
Total OPEB plan's fiduciary net position	\$ 4,874,625	\$ 3,902,730	\$ 3,910,225	\$ 3,695,108
Total OPEB plan's pension liability	\$ 7,597,634	\$ 7,241,531	\$ 6,332,040	\$ 6,183,547
Total OPEB Plan's fiduciary net position as a percentage of the total OPEB liability	64.16%	53.89%	61.75%	59.76%
	<u>2017</u>			
Total net OPEB liability for County Employees' Retirement System	\$ 2,837,014			
District's proportion of the net OPEB liability (asset)	0.009638%			
District's proportionate share of the net OPEB liability (asset)	\$ 194			
District's covered-employer payroll	\$ 230			
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employer payroll	84.35%			
Total OPEB plan's fiduciary net position	\$ 3,401,537			
Total OPEB plan's pension liability	\$ 6,238,551			
Total OPEB Plan's fiduciary net position as a percentage of the total OPEB liability	55.42%			

Note: This schedule is intended to present a 10-year trend per GASB 75. Additional years will be reported as incurred

Muhlenberg County Water District Number 3
 Schedule of District Contributions-OPEB Plan
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 13,803	\$ 12,549	\$ 11,394	\$ 11,934
Contributions in relation to the actuarially determined contribution	<u>13,803</u>	<u>12,549</u>	<u>11,394</u>	<u>11,934</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered-employee payroll	\$ 262,750	\$ 263,640	\$ 227,664	\$ 239,693
Contributions as a percentage of covered- employee payroll	5.25%	4.76%	5.00%	4.98%
	<u>2017</u>			
Actuarially determined contribution	\$ 10,823			
Contributions in relation to the actuarially determined contribution	<u>10,823</u>			
Contribution deficiency (excess)	<u>\$ 0</u>			
District's covered-employee payroll	\$ 229,516			
Contributions as a percentage of covered- employee payroll	4.72%			

Note: This schedule is intended to present a 10-year trend per GASB 75. Additional years will be reported as incurred

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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*

To The Commissioners
Muhlenberg County Water District Number 3
Bremen, Kentucky

We have audited, 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, the financial statements of Muhlenberg County Water District Number 3 as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, and have issued our report thereon dated July 8, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Muhlenberg County Water District Number 3'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 Muhlenberg County Water District Number 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Muhlenberg County Water District Number 3'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. We did identify certain deficiencies in internal control, as discussed below, that we consider to be significant deficiencies.

2021-1 Segregation of Duties

Condition: The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.

Criteria: Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

Effect: The lack of proper segregation of duties may permit errors or irregularities to 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.

2021-2 Lack of Financial Reporting Expertise

Condition: The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures. Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Criteria: The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Effect: The absence of such controls may allow errors to go undetected.

Cause: There is a lack of personnel who possess the required knowledge.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

Response: Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muhlenberg County Water District Number 3'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 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*.

Muhlenberg County Water District Number 3's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on Muhlenberg County Water District Number 3's response to the findings identified in our audit is described above. Muhlenberg County Water District Number 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 result 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 purposes.

Knight Wagon, PCC

Madisonville, Kentucky
July 8, 2022