

BATH COUNTY WATER DISTRICT

Salt Lick, Kentucky

Audited Financial Statements

For the year ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board Members
Bath County Water District
Salt Lick, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Bath County Water District as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Bath County Water District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Bath County Water District, as of December 31, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Bath County Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Bath County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 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, 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 Bath County Water District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bath County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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 and historical context. Our opinion on the basic financial statements is not affected by this missing information.

The Schedule of Employer's Proportionate Share of Net Pension Liability, the Schedule of Employer's Contributions – Net Pension Liability, Schedule of Employer's Proportionate Share of Net OPEB Liability and the Schedule of Employer's Contributions – Net OPEB Liability are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bath County Water District's basic financial statements. The Comparative Statement of Revenues and Expenses is presented for purposes of additional analysis and are not a required part of the basic financial statements.

As discussed in the notes to the financial statements, accounting principles generally accepted in the United States of America require the Company to record leases in accordance with requirements primarily codified in FASB Accounting Standards Codification section 842 which generally require that all leases are classified as either an operating or financing type lease and that a right of use asset and lease liability is recorded on the balance sheet. Management has not applied this principle of lease classification and, therefore, information about the nature, amount, timing and uncertainty of leases, right-of-use assets and lease liabilities, and cash flows arising from leases may be misstated. The effects of this departure from accounting principles generally accepted in the United States of America on financial position, results of operations, and cash flows have not been determined.

The Comparative Statement of Revenues and Expenses is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Comparative Statement of Revenues is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 03, 2024, on our consideration of the Bath County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 the Bath County Water District's internal control over financial reporting and compliance.

Lane & Company LLC

Mount Sterling, Kentucky

May 03, 2024

This report contains 30 pages.

Bath County Water District
Statement of Net Position
Proprietary Fund
December 31, 2023

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 1,041,837
Cash and cash equivalents - restricted	378,162
Accounts receivable - net of allowance for doubtful accounts	243,546
Inventory	180,962
Prepaid expenses	<u>36,192</u>
Total Current Assets	<u>1,880,699</u>
Noncurrent Assets	
Capital assets: (note 1)	
Plant, equipment and lines	17,876,975
Construction in process	529,650
Accumulated depreciation	<u>(8,260,907)</u>
Total Noncurrent Assets	<u>10,145,718</u>
Deferred Outflows of Resources	<u>254,113</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 12,280,530</u>

LIABILITIES

Current Liabilities	
Accrued liabilities	\$ 249,054
Accrued interest	10,591
Deposits payable	105,934
Bonds/notes payable	<u>48,967</u>
Total Current Liabilities	<u>414,546</u>
Noncurrent Liabilities	
Net pension liability	775,435
Net OPEB liability	(16,685)
Bonds/notes payable	<u>986,025</u>
Total Noncurrent Liabilities	<u>1,744,775</u>
Deferred Inflows of Resources	<u>599,852</u>
Total Liabilities and Deferred Inflows of Resources	<u>2,759,173</u>

NET POSITION

Net investment in capital assets	9,110,726
Restricted	272,228
Unrestricted	<u>138,403</u>
Total Net Position	<u>\$ 9,521,357</u>

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

Bath County Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended December 31, 2023

Operating Revenues	
Water sales	\$ 2,316,734
Other income	58,499
Total Operating Revenues	<u>2,375,233</u>
Operating Expenses	
Purchased power	105,548
Purchased water	1,128,362
Salaries	362,940
Materials and supplies	67,857
Transportation expense	35,750
Insurance expense	32,766
Health and life insurance	150,497
Chemicals	8,375
Payroll taxes	28,146
Retirement	(46,649)
Legal and professional	12,419
Contract services	9,944
Office utilities	22,992
Office supplies	41,895
Postage	24,061
Regulatory commission expenses	28,411
Bad debts	2,943
Depreciation expense	385,880
Credit card fees	25,004
Total Operating Expenses	<u>2,427,141</u>
Operating Income (Loss)	<u>(51,908)</u>
Nonoperating Revenues (Expenses)	
Government contributions	472,966
Nonoperating revenue - other	25,816
Tap fees	60,440
Gain/(loss) on disposition of capital assets	15,775
Interest income	4,551
Interest expense	(12,572)
Net Nonoperating Revenues (Expenses)	<u>566,976</u>
Change in Net Position	515,068
Total Net Position - beginning	<u>9,006,289</u>
Total Net Position - ending	<u>\$ 9,521,357</u>

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

Bath County Water District
Statement of Cash Flows
Proprietary Fund
December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 2,468,313
Cash paid to employees	(362,940)
Cash paid for general and administrative expenses	<u>(1,752,539)</u>
Net Cash provided / (used) by operating activities	<u>352,834</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	4,551
Customer deposits	<u>5,866</u>
Net Cash provided / (used) by investing activities	<u>10,417</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Government contributions	472,966
Tap fees	60,440
Bond/note payments - principal	(32,225)
Gain on sale of capital assets	15,775
Purchase of capital assets	(669,942)
Bond/note payments - interest	<u>(15,741)</u>
Net Cash provided / (used) in capital and financing activities	<u>(168,727)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	194,524
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,225,475</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 1,419,999</u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (51,908)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(increase) / decrease in prepaid expenses	(11,455)
(increase) / decrease in inventory	35,031
(increase) / decrease in accounts receivable	118,899
depreciation	385,880
increase / (decrease) in pension/OPEB expense due to GASB 68/75	(132,433)
increase / (decrease) in accounts payable	<u>8,820</u>
Net cash provided / (used) by operating activities	<u>\$ 352,834</u>

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

BATH COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

The Bath County Water District is a water utility which services areas of Bath, Menifee, Montgomery and Rowan Counties. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Bath County Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Depreciation Fund

The District is required to deposit into the Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Money in the Depreciation Fund shall be available and used, upon appropriate certification to the bank, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund equals \$219,400, the monthly payments may be discontinued, or by order of the governing body of the District, be diverted into the Sinking Fund Account. The District had set aside \$219,400 as of the end of the year.

Sinking Fund

The District is required to set aside an amount into a special account known as the Bath County Water District Water System Revenue Bonds, Bond and Interest Sinking Fund. The amount to be so set aside and paid each month shall be no less than the following respective amounts:

- 1) A sum equal to one sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- 2) A sum equal to one twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the reserve at December 31, 2023 was \$39,600. The District had set aside \$43,729 into a restricted account.

Enterprise Funds

An enterprise fund distinguishes 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 the District's principal ongoing operations. The principal operating revenues of the District are user fees. Operating expenses of the District include the cost of producing the revenue 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.

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. 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 associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segmented into net investment in capital assets, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Basis of Accounting

The records of the District are maintained, and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are valued at lower of cost or market and recorded using the FIFO method.

Deposits

The District considers all highly liquid investments with a maturity date of twelve months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents. On December 31, 2023, the carrying amount of the District’s deposits was \$1,419,999 and the bank balance was \$1,476,001. Of the bank balance 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name.

Summary of Cash & Cash Equivalents			
Description	Unrestricted	Restricted	Total
Bond and Interest Sinking Fund	\$ -	\$ 43,729	\$ 43,729
Upgrades and Improvements	22	-	22
Debit Card Account	3,098	-	3,098
Meter Deposits	-	115,033	115,033
Operation and Maintenance	290,714	-	290,714
Revenue Fund	411,936	-	411,936
Tap Fees	46,489	-	46,489
Construction Account	1,013	-	1,013
Payroll Fund	67,974	-	67,974
KIA Reserve	23,000		23,000
Certificates of Deposit	196,841	219,400	416,241
Cash in Drawer	750	-	750
Totals	\$ 1,041,837	\$ 378,162	\$ 1,419,999

Capital Assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Water lines, tanks	40-50 years
Equipment	5-10 years
Computers	3 years
Meters	15 years

The District’s capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

Accounts Receivable

The receivable reflected in the statements in the amount of \$243,546 are net of allowance for uncollectible in the amount of \$19,509.

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 reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Pensions

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

Leases

The entity has obligations as a lessee for office space, computers, and other office equipment with initial noncancelable terms in excess of one year. The entity classified these leases as operating leases. These leases generally contain renewal options for periods ranging from two to five years. Because the entity is not reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments. The entity's leases do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus, for many of the entity's leases, variable payments.

Note 2 – Defined Benefit Pension Plan

General Information About the Pension Plan

Plan description - Regular, full-time, employees of the Entity are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority. The assets of CERS are pooled with two other retirement systems Kentucky Public Pensions Authority administers, KERS & SPRS. Although invested each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Public Pensions Authority's Board of Trustees (Board). Kentucky Public Pensions Authority issues a publicly available financial report that can be obtained on their website.

Benefits provided - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Membership in the CERS Non-hazardous Pension Fund consisted of the following on June 30, 2019:

Membership Status

Inactive plan members currently receiving benefits	68,889
Inactive plan members entitled to but not yet receiving benefits	105,707
Active plan members	<u>77,849</u>
Total plan members	252,445

Prior to July 1, 2009, cost of living adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index (CPI) for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.50%. No COLA has been granted since July 1, 2011.

Contributions

The Commonwealth is required to contribute at an actuarially determined rate for KERS and SPRS pensions. Participating employers are required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Sections KERS 61.565(3), CERS 78.545(33), and SPRS 16.645(18), normal contribution and past service contribution rates shall be determined by the Board on the basis of the last annual valuation preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget for KERS and SPRS.

For the fiscal years ended June 30, 2023, participating employers contributed a percentage of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal year is a percentage of each employee’s creditable compensation. Administrative costs of KPPA are financed through employer contributions and investment earnings.

TIER 1:

Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members’ accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

TIER 2:

Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute 6% (Non-Hazardous) or 9% (Hazardous) of their annual creditable compensation. Further, 1% of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation (KAR) 105 KAR 1:420 Employer’s administrative duties). These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members’ accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

TIER 3:

Tier 3 plan members, who began participating on, or after, January 1, 2014, are 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. Members contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation, and an additional 1% to the health insurance fund (401(h) account), which is not credited to the member’s account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. A member’s account is credited with a 4% (Non-Hazardous) or 7.5% (Hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

Contribution Rates and Amounts for CERS Non-Hazardous

Period	Pension	Insurance	Total	Employer		Employee
				Pension	Insurance	
01/01/2023-06/30/2023	23.40%	3.39%	26.79%	\$ 41,219	\$ 5,972	\$ 8,808
07/01/2023-12/31/2023	23.34%	0.00%	23.34%	38,593	0	8,268
Totals				\$79,813	\$5,972	\$17,075

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

At December 31, 2023, the Entity reported a liability of \$775,435 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Entity’s portion of the net pension liability was based on the Entity’s proportionate share of retirement contributions for the fiscal year ended June 30, 2021. On June 30, 2023 the Entity’s proportionate share was 0.012085%.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense, they are labeled deferred inflows. If they will increase pension expense, they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar

basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. For the year ended December 31, 2023, the Entity recognized pension expense of \$5,382. On December 31, 2023, the Entity reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Liability Experience	\$ 40,143	\$ 2,107
Changes in assumptions	-0-	71,069
Differences between expected and actual Investment Experience	83,769	94,346
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,920	91,673
Contributions subsequent to the measurement date	<u>38,593</u>	<u>-0-</u>
Total	\$ 164,425	\$ 259,195

\$38,593 reported as deferred outflows of resources related to pensions resulting from the Entity's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. The remaining amount of (\$133,363) reported as the net effect of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2024	\$(85,535)
2025	(57,633)
2026	17,311
2027	(7,506)
2028	-0-
Thereafter	<u>-0-</u>
Total	\$ (133,363)

Actuarial methods & assumptions: For financial reporting, the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

The actuarial assumptions are:

Inflation	2.30% for all plans
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increases	3.30% to 10.30% varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS Non-hazardous

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 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Nonhazardous plan to elect to cease participating in the System as of June 30, 2021 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session which delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2023:

Valuation Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	30-year closed period at June 30, 2019. Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll Growth Rate	2.00% for CERS non-hazardous
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30%-10.30%, Varies by Service for CERS non-hazardous
Investment Return	6.25% for CERS Non-hazardous
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

The long-term expected rates of return were determined by using a building block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below. The current long-term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous plan.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	60.00%	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income	20.00%	
Core Bonds	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected	20.00%	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return	100.00%	5.75%
Long Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		8.25%

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

A single discount rate of 6.50% was used to measure the total pension liability for the non-hazardous plan and the hazardous plan for the fiscal year ending June 30, 2023. The single discount rate is based on the expected rate of return on pension plan investments for each plan. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the non-hazardous and hazardous pension plans' fiduciary net position and future contributions were separately projected and were each sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each plan.

The projection of cash flows used to determine the single discount rate for each fund must include an assumption regarding actual employer contributions made each future year. Except where noted below, future contributions are projected assuming that each participating employer in each pension fund contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2018 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028. However, contribution rates are not currently projected to increase by more than 12% in any given future year. Therefore, for the purposes of this calculation, the provisions of House Bill 362 do not impact the projected contribution rates.

Methodology for Proportionate Shares

The proportionate share(s) of the Collective Pension Amounts for employers that participate in these cost-sharing multiple employer plans is provided in Appendix A and Appendix B of this report and was determined using the employers' actual contributions for the fiscal year ending June 30, 2023. This method is expected to be reflective of the employers' long-term contribution effort as well as be transparent to individual employers and their external auditors.

Non-Employer Contributions

Non-employer contributions will be allocated according to each employer's proportionate share, as described previously. There were no non-employer contributions made during fiscal year ending June 30, 2023 for either the non-hazardous or hazardous plans.

Sensitivity of the employer's proportionate share of the net pension liability to changes in the discount rate - The following presents the net pension liability of the System, calculated using the discount rate of 6.50%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (5.50%) or 1- percentage-point higher (7.50%) than the current rate for non-hazardous:

	1% Decrease <u>5.50%</u>	Current Discount Rate <u>6.50%</u>	1% Increase <u>7.50%</u>
Proportionate share of the net pension liability	\$ 979,034	\$ 775,435	\$ 606,237

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

Note 3 - Other Postemployment Benefits Plan (OPEB)

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

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

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

Timing of the Valuation

For the employer's financial reporting purposes, the net pension liability and pension expense should be measured as of the employer's "measurement date" which may not be earlier than the employer's prior fiscal year-end date. The total

pension liability, net pension liability, and sensitivity information show in this report are based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles. This information was determined separately for the non-hazardous pension fund and the hazardous pension fund.

The Board of Trustees adopted new actuarial assumptions on May 9, 2023. These assumptions are documented in the report titled "2022 Actuarial Experiences Study for the Period Ending June 30, 2022". Additionally, the discount rate used to calculate the total OPEB liability increased from 5.70% to 5.93% for the CERS non-hazardous insurance plan and from 5.61% to 5.97% for the CERS hazardous insurance plan (see information regarding the calculation of the single discount rate later in this section of the report). The total OPEB liability as of June 30, 2023 is determined using these updated assumptions. It is our opinion that these procedures are reasonable and appropriate, and comply with applicable requirements under GASB Statement No. 75.

House Bill 506 adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month under all circumstances. This is a minimal change for members in the hazardous plan, as the minimum separation period was already one month for members who became reemployed on a full-time basis in a hazardous position. The requirement was previously three months only for members who became reemployed on a part-time basis or in any non-hazardous position. We believe this provision of House Bill 506 will have an insignificant impact on the retirement pattern of hazardous members and therefore have reflected no fiscal impact to the total OPEB liability of the hazardous plan.

Similarly, this is a relatively small change for future retirees in the non-hazardous plan. But as the minimum separation period was previously three months in almost every circumstance, we have assumed that there would be a 1.0% increase in the rate of retirement for each of the first two years a non-hazardous member becomes retirement eligible under the age of 65, in order to reflect a shift in the retirement pattern. The total OPEB liability as of June 30, 2023 for the non-hazardous plan is determined using these updated benefit provisions.

Employer Contributions after the Measurement Date and before the Employer's Fiscal Year End

GASB No. 75 indicates that employer contributions made subsequent to the measurement date of the Net OPEB Liability and prior to the end of the employer's reporting period should be reported by the employer as a deferred outflow of resources. The information contained in this report does not incorporate any contributions made to the plan subsequent to June 30, 2023.

Single Discount Rate

Single discount rates of 5.93% for the CERS non-hazardous insurance plan and 5.97% for the CERS hazardous insurance plan were used to measure the total OPEB liability as of June 30, 2023. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.86%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2023. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the plan's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

Methodology for Proportionate Shares

The proportionate share(s) of the Collective OPEB Amounts for employers that participate in these cost-sharing multiple employer plans is provided in Appendix A and Appendix B of this report and were determined using the employers' actual contributions for the fiscal year ending June 30, 2023. This method is expected to be reflective of the employers' long-term contribution effort as well as be transparent to individual employers and their external auditors.

Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003 by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023.

Non-Employer Contributions

Non-employer contributions will be allocated according to each employer’s proportionate share, as described previously. There were no non-employer contributions during fiscal year ending June 30, 2022 for either the non-hazardous or hazardous funds.

Actuarial methods & Assumptions

For financial reporting, the actuarial valuation as of June 30, 2023, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, net OPEB liability and sensitivity information as of June 30, 2023 were based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan’s fiscal year ending June 30, 2022, using generally accepted actuarial principles.

Long-Term Expected Rate of Return

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real 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 allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	60.00%	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income	20.00%	
Core Bonds	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected	20.00%	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return	100.00%	5.75%
Long Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		8.25%

Use of Estimates in the Preparation of the Schedules

The preparation of the schedules in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2023:

Determined by the Actuarial Valuation as of:	June 30, 2021
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level Percent of Pay
Amortization Period:	30-year closed period at June 30, 2019 <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.00%

Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 10.30% for CERS non-hazardous members, varies by service
Mortality:	System-specific mortality table based on mortality experience from 2013- 2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Healthcare Trend Rates: Pre-65	Initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare Trend Rates: Post-65	Initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.

Implicit Subsidy

GASB Statements No. 75 and No. 68 are conceptually very similar in terms of the liability which is recognized on the balance sheet, the expense calculation, and the corresponding deferred outflows and inflows of resources. The main differences between the standards are related to the differences between pension and health care benefits. In particular, there is a concept referred to as the “implicit subsidy” that applies to health plans which utilize a blended premium, which has no counterpart in GASB Statement No. 68. The “implicit” or “hidden” subsidy refers to the difference between the underlying retiree claims costs and the overall health care premiums paid on behalf of retirees. By “overall”, we mean the combined employer and retiree portions of the premiums. GASB defines the employer provided OPEB benefit as the difference between the underlying claims costs (or age-adjusted premiums) and the premium contributions made by retirees. If the overall premiums for retirees were developed solely on the claims experience of the retirees, there would be no implicit subsidy and the employer portion of the overall retiree premiums would coincide with GASB’s definition of the OPEB benefit. However, the fully-insured premiums paid to the Kentucky Employees’ Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to all participants, there is an implicit employer subsidy for the non-Medicare eligible retirees.

This is important because the retiree health insurance trust is used to pay the employers’ portion of the blended premiums, not the employers’ portion of the underlying retiree claims costs. In order to account for the employer provided OPEB benefit, as it is defined by GASB, the payments made by the retiree health insurance trust need to be adjusted to reflect the implicit subsidy (the difference between the retiree claims and the overall premiums). Similarly, the employer contributions need to be adjusted to reflect the cost of the implicit subsidy. It’s important to keep in mind that the implicit subsidy is an employer contribution. Because the implicit subsidy does not pass through the trust, it is considered a benefit payment that was paid “as it came due”. For plans that use a blended premium structure, Illustrations B1-1 and B1-2 of Implementation Guide No. 2017-3 describe how a portion of the payments made on behalf of the active employees should be reclassified as benefit payments for retiree healthcare to reflect the retirees’ underlying claims costs. Adjusting the explicit health care costs for active employees and retirees by the implicit subsidy estimates provided in this report is equivalent to the reclassification described in the Implementation Guide.

To summarize, the distributions from the retiree health insurance trust pay the employers’ portion of the blended premiums, not the employers’ portion of the underlying retiree claims costs. As a result, the benefit payments and contribution amounts disclosed for GASB Statement No. 74 and 75 purposes need to include an adjustment related to the implicit subsidy. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and also for the purpose of the deferred outflow related to contributions made after the measurement date. The appendices in this report provide each employer’s implicit subsidy for the measurement period and each employer’s implicit subsidy for the year ending June 30, 2024.

The Entity’s implicit subsidy for the year ended December 31, 2023 was \$5,450.

Contributions

The Commonwealth is required to contribute at an actuarially determined rate for KERS and SPRS pensions. Participating employers are required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Sections KERS 61.565(3), CERS 78.545(33), and SPRS 16.645(18), normal contribution and past service contribution rates shall be determined by the Board on the basis of the last annual valuation preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget for KERS and SPRS.

For the fiscal years ended June 30, 2023, participating employers contributed a percentage of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal year is a percentage of each employee’s creditable compensation. Administrative costs of KPPA are financed through employer contributions and investment earnings.

Contribution Rates and Amounts for CERS Non-Hazardous

Period	Pension	Insurance	Total	Employer		Employee
				Pension	Insurance	
01/01/2023-06/30/2023	23.40%	3.39%	26.79%	\$ 41,219	\$ 5,972	\$ 8,808
07/01/2023-12/31/2023	23.34%	0.00%	23.34%	38,593	0	8,268
Totals				\$79,813	\$5,972	\$17,075

Contributions including implicit subsidy \$17,331

For additional information regarding contributions, please refer to the Defined Benefit Pension Plan footnote.

TIER 1:

Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members’ accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

TIER 2:

Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute 6% (Non-Hazardous) or 9% (Hazardous) of their annual creditable compensation. Further, 1% of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation (KAR) 105 KAR 1:420 Employer’s administrative duties). These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members’ accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

TIER 3:

Tier 3 plan members, who began participating on, or after, January 1, 2014, are 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. Members contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation, and an additional 1% to the health insurance fund (401(h) account), which is not credited to the member’s account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. A member’s account is credited with a 4% (Non-Hazardous) or 7.5% (Hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

On December 31, 2023, the Entity reported a liability of (\$16,685) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021, rolled-forward to June 30, 2022 using generally accepted actuarial principles. The Entity’s proportion of the net OPEB liability was determined using the Entity’s actual contributions for the year ended June 30, 2022. This method is expected to be reflective of the Entity’s long-term contribution effort. For the year ended December 31, 2023, the Entity’s proportion was 0.012085% which is equal to its proportion measured as of June 30, 2021.

For the year ended December 31, 2023, the Entity recognized OPEB expense of (\$44,192). On December 31, 2023, the Entity reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual liability experience	\$ 11,632	\$ 236,915
Effects of changes in assumptions	32,836	22,883
Differences between projected and actual earnings on plan investments	31,226	35,098
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,544	45,861
Contributions subsequent to the measurement date + implicit subsidy	<u>5,450</u>	<u>-0-</u>
Total	\$ 89,688	\$ 340,757

\$5,450 reported of deferred outflows of resources resulting from the Entity's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2023. Other amounts reported as the net effect of deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2024	\$ (66,874)
2025	(76,302)
2026	(62,711)
2027	(50,632)
2028	-0-
Thereafter	<u>-0-</u>
Total	\$ (256,519)

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

The following presents the proportionate share of the net OPEB liability calculated using the single discount rate of 5.70%, as well as what the Entity's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (4.70%) or 1% higher (6.70%) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	4.93%	\$ 31,312
Current discount rate	5.93%	\$ (16,685)
1% increase	6.93%	\$ (56,877)

Sensitivity of the Entity's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1% lower or 1% higher than the current rates:

	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	\$ (53,479)
Current healthcare cost trend rate	\$ (16,685)
1% increase	\$ 28,513

Note 4 – Notes/Bonds Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan/bond payments from future revenues. On December 31, 2023, three loans/bond had outstanding balances. Details follow:

Note 4a

Lender – Kentucky Infrastructure Authority (KIA)
 Original loan amount - \$651,928
 Balance of loan – \$459,492
 Rate – .75%
 Principal due January 01
 Interest due January 01 and July 01
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Schedule of future payments:

Year(s)	Principal	Interest	Total
2024	\$ 32,467	\$ 3,385	\$ 35,852
2025	32,711	3,141	35,852
2026	32,957	2,896	35,852
2027	33,204	2,648	35,852
2028	33,454	2,399	35,852
2029-2033	171,078	8,184	179,262
2034-2038	123,622	1,861	125,483
Totals	\$ 459,492	\$ 24,514	\$ 484,007

Note 4b

Lender – United States Department of Agriculture (USDA)
 Original loan amount - \$259,000
 Balance of loan – \$204,000
 Rate – 2.375%
 Principal payments due each year on January 01
 Interest payments due each year on January 01
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Schedule of future payments:

Year(s)	Principal	Interest	Total
2024	\$ 5,500	\$ 4,768	\$ 10,268
2025	5,500	4,637	10,137
2026	6,000	4,501	10,501
2027	6,000	4,358	10,358
2028	6,000	4,216	10,216
2029-2033	33,500	18,602	52,102
2034-2038	38,000	14,096	52,096
2039-2043	43,000	9,227	52,227
2044-2048	50,000	3,658	53,658
2049-2053	10,500	-	10,500
Totals	\$ 204,000	\$ 68,062	\$ 272,062

Note 4c

Lender – United States Department of Agriculture (USDA)
 Original loan amount - \$500,000
 Balance of loan – \$371,500
 Rate – 4.375%
 Principal and interest payments due each year on June 01 and December 01.

Year(s)	Principal	Interest	Total
2024	\$ 11,000	\$ 16,034	\$ 27,034
2025	11,500	15,542	27,042
2026	12,000	15,028	27,028
2027	12,500	14,492	26,992
2028	13,000	13,934	26,934
2029-2033	75,000	60,353	135,353
2034-2038	93,500	41,989	135,489
2039-2043	115,000	19,239	134,239
2044-2048	28,000	613	28,613
Totals	\$ 371,500	\$ 197,225	\$ 568,725

	Outstanding 1/1/2023	Issued	Retired	Outstanding 12/31/2023	Due Within One Year
USDA	\$ 575,500	\$ -	\$ -	\$ 575,500	\$ 16,500
KIA	491,717	-	32,225	459,492	32,467
Total	\$ 1,067,217	\$ -	\$ 32,225	\$ 1,034,992	\$ 48,967

Total interest paid during the year on long-term debt was \$12,572.

Note 5 – 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; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 6 - Changes in Capital Assets

The following is a summary of changes in the capital assets for the year:

	Balance 1/1/2023	Additions/ Transfers	Deletions	Balance 12/31/2023
Land, non-depreciable	\$ 46,012	\$ -	\$ -	\$ 46,012
Utility plant and equipment	17,642,581	215,182	26,800	17,830,963
	\$ 17,763,483	\$ 669,942	\$ 26,800	\$ 18,406,625
Accumulated depreciation	\$ 7,901,826	\$ 385,880	\$ 26,800	\$ 8,260,906
Capital assets, net of accumulated depreciation	\$ 9,861,657	\$ 284,062	\$ -	\$ 10,145,719

Note 7 - Restricted Cash

Restricted cash is composed of the following:

Account Description	Amount
Depreciation reserve	\$ 219,400
Bond & interest	43,729
Customer Deposits	115,033
Total Restricted Cash	\$ 378,162

Note 8 – Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2023. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Responses section of this report.

Note 9 – Subsequent Events

The District has evaluated subsequent events through May 03, 2024, and that is the date that the financial statements were available to be issued.

Note 10 - Noncurrent Liabilities

Description	Balance,			Balance,		
	01/01/2023	Additions	Subtractions	12/31/2023	Current Portion	Noncurrent Portion
Bonds payable	\$ 1,067,217	\$ -	\$ 32,225	\$ 1,034,992	\$ 48,967	\$ 986,025
NPL	968,905	-	193,470	775,435	-	775,435
OPEB	264,471	-	281,156	(16,685)	-	(16,685)
	\$ 2,300,593	\$ -	\$ 506,851	\$ 1,793,742	\$ 48,967	\$ 1,744,775

REQUIRED SUPPLEMENTARY INFORMATION

Bath County Water District
Schedule of Employer's Proportionate Share of Net Pension Liability
December 31, 2023

	Measurement Date				
	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020
Proportion of the net pension liability (asset)	0.013370%	0.013470%	0.014930%	0.015420%	0.014000%
Proportionate share of the net pension liability (asset)	\$ 574,740	\$ 662,950	\$ 873,899	\$ 938,942	\$ 1,044,489
Covered employee payroll	\$ 336,805	\$ 392,984	\$ 391,510	\$ 352,281	\$ 346,695
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	170.64%	168.70%	223.21%	266.53%	301.27%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	55.50%	53.32%	53.54%

	Measurement Date		
	6/30/2021	6/30/2022	6/30/2023
Proportion of the net pension liability (asset)	0.013620%	0.013400%	0.012085%
Proportionate share of the net pension liability (asset)	\$ 942,277	\$ 968,905	\$ 775,435
Covered employee payroll	\$ 381,130	\$ 367,120	\$ 351,151
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	247.23%	263.92%	220.83%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	57.33%	52.42%

Bath County Water District
Schedule of Employer's Contributions - Net Pension Liability
December 31, 2023

	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
Contractually required contribution	\$ 58,502	\$ 39,911	\$ 38,254	\$ 50,708	\$ 55,331
Contributions in relation to the contractually required contribution	<u>58,502</u>	<u>39,911</u>	<u>38,254</u>	<u>50,708</u>	<u>55,331</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 327,905</u>	<u>\$ 336,805</u>	<u>\$ 392,984</u>	<u>\$ 391,510</u>	<u>\$ 346,695</u>
Contributions as a percentage of covered employee payroll	17.84%	11.85%	9.73%	12.95%	15.96%
	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>	<u>12/31/2023</u>	
Contractually required contribution	\$ 55,331	\$ 67,325	\$ 72,857	\$ 79,812	
Contributions in relation to the contractually required contribution	<u>55,331</u>	<u>67,325</u>	<u>72,857</u>	<u>79,812</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered employee payroll	<u>\$ 346,695</u>	<u>\$ 380,130</u>	<u>\$ 367,120</u>	<u>\$ 341,503</u>	
Contributions as a percentage of covered employee payroll	15.96%	17.71%	19.85%	23.37%	

Bath County Water District
Schedule of Employer's Proportionate Share of Net OPEB Liability
December 31, 2023

	Measurement Date				
	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Proportion of net OPEB liability (asset)	0.0149300%	0.015420%	0.014000%	0.013610%	0.014776%
Proportionate share of net OPEB liability (asset)	\$ 235,424	\$ 300,144	\$ 235,390	\$ 328,737	\$ 282,879
Covered employee payroll	\$ 392,984	\$ 391,510	\$ 346,695	\$ 380,130	\$ 367,120
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	59.91%	76.66%	67.90%	86.48%	77.05%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	51.67%	62.91%

	Measurement Date
	6/30/2023
Proportion of net OPEB liability (asset)	0.012085%
Proportionate share of net OPEB liability (asset)	\$ (16,685)
Covered employee payroll	\$ 351,151
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	-4.75%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%

Bath County Water District
Schedule of Employer's Contributions - Net OPEB Liability
December 31, 2023

	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>
Statutorily required contribution	\$ 17,194	\$ 18,574	\$ 16,604	\$ 17,969	\$ 17,969
Contributions in relation to the statutorily required contribution	<u>17,194</u>	<u>18,574</u>	<u>16,604</u>	<u>17,969</u>	<u>17,969</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 391,510</u>	<u>\$ 352,281</u>	<u>\$ 346,695</u>	<u>\$ 380,130</u>	<u>\$ 367,120</u>
Contributions as a percentage of covered-employee payroll	4.39%	5.27%	4.79%	4.73%	4.89%
	<u>12/31/2023</u>				
Statutorily required contribution	\$ 5,972				
Contributions in relation to the statutorily required contribution	<u>5,972</u>				
Contribution deficiency (excess)	<u>\$ -</u>				
Covered employee payroll	<u>\$ 341,503</u>				
Contributions as a percentage of covered-employee payroll	1.75%				

Bath County Water District
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the year ended December 31, 2023

County Employee Retirement System – Pension & Insurance Funds

Changes of Benefit Terms

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

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

During the **2019** Special Legislative Session, House Bill 1 passed allowing certain employers in the KERS Nonhazardous plan to elect to cease participating in the System as of June 30, 2021 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session which delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer’s elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

During the **2019** legislative session, House Bill 484 was enacted, which updated the benefit provisions for active members who die in the line of duty.

- Pension – Benefits paid to the spouses of deceased members have been increased from 25% of the member’s final rate of pay to 75% of the member’s average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member’s final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.
- Insurance – The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

Changes in Assumptions

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2021**:

- The rate of inflation, payroll growth rate, and investment return assumptions remain the same as those adopted for the June 30, 2019 valuation.
- The salary increase assumption was increased from a range of 3.30%-11.55% to a range of 3.30% - 10.30%.
- The healthcare trend rates used were updated to the following:
 - Pre-65 – Initial trend starting at 6.25% at January 01, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
 - Post-65 – Initial trend starting at 5.50% at January 01, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
- The mortality tables used were updated to the following:
 - System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2020**:

- The rate of inflation, payroll growth rate, investment rate of return, healthcare trend rate assumptions and mortality tables remain the same as those previously adopted.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2019**:

- The rate of inflation, payroll growth rate, salary increases, and investment rate of return assumptions remain the same as those adopted for the June 30, 2017 valuation.
- The salary increase assumption was increased from an average of 3.05% to a range that varies by service of 3.30% - 10.30%.

- The healthcare trend rates used were updated to the following:
 - Pre-65 – Initial trend starting at 7.00% at January 01, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
 - Post-65 – Initial trend starting at 5.00% at January 01, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
- The mortality tables used were updated to the following:
 - Active members – PUB 2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
 - Healthy retired members – System specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019.
 - Disabled retire members – 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 scale using a base year of 2010.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2017**:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The payroll growth rate was reduced from 4.00% to 2.00%.
- The salary increase assumption was reduced from 4.00% average to 3.05% average.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2015**:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 4.50% to 4.00%.
- The payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB 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 one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

SUPPLEMENTARY INFORMATION



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American Institute of CPAs
Kentucky Society of CPAs

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

To the Board Members
Bath County Water District
Salt Lick, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Bath County Water District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Bath County Water District's basic financial statements, and have issued our report thereon dated May 03, 2024.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 Bath County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Lane & Company LLC

Mount Sterling, Kentucky

May 03, 2024

Bath County Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the years ended December 31, 2022 and December 31, 2023

	<u>2022</u>	<u>2023</u>
Operating Revenues		
Water sales	\$ 2,339,650	\$ 2,316,734
Other income	<u>86,725</u>	<u>58,499</u>
Total Operating Revenues	<u>2,426,375</u>	<u>2,375,233</u>
Operating Expenses		
Purchased power	108,036	105,548
Purchased water	1,170,329	1,128,362
Salaries	367,861	362,940
Materials and supplies	98,634	67,857
Transportation expense	32,269	35,750
Insurance expense	31,702	32,766
Health and life insurance	148,214	150,497
Chemicals	15,442	8,375
Payroll taxes	29,262	28,146
Retirement	94,106	(46,649)
Legal and professional	9,662	12,419
Contract services	7,308	9,944
Office utilities	20,910	22,992
Office supplies	71,725	41,895
Postage	20,111	24,061
Regulatory commission expenses	4,211	28,411
Bad debts	2,583	2,943
Depreciation expense	381,504	385,880
Credit card fees	<u>-</u>	<u>25,004</u>
Total Operating Expenses	<u>2,613,869</u>	<u>2,427,141</u>
Operating Income (Loss)	<u>(187,494)</u>	<u>(51,908)</u>
Nonoperating Revenues (Expenses)		
Government contributions	74,890	472,966
Nonoperating revenue - other	-	25,816
Tap fees	48,750	60,440
Gain/(loss) on disposition of capital assets	8,100	15,775
Interest income	10,460	4,551
Interest expense	<u>(27,525)</u>	<u>(12,572)</u>
Net Nonoperating Revenues (Expenses)	<u>114,675</u>	<u>566,976</u>
Change in Net Position	<u>\$ (72,819)</u>	<u>\$ 515,068</u>

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