BIG SANDY WATER DISTRICT

Catlettsburg, Kentucky

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

for the year ended December 31, 2021

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2021, and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 Big Sandy Water District, as of December 31, 2021, 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.

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 Big Sandy 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.

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 July 20, 2022, on our consideration of the Big Sandy 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 Big Sandy Water District's internal control over financial reporting and compliance.

Lane & Company LLC

Mount Sterling, Kentucky

July 20, 2022

This report contains 30 pages.

Big Sandy Water District
Statement of Net Position
Proprietary Fund
December 31, 2021

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	$ 258,070
Cash and cash equivalents - restricted	371,165
Accounts receivable - net of allowance for doubtful accounts	301,138
Inventory	64,325
Prepaid expenses	74,108
Total Current Assets	1,068,806
Noncurrent Assets	
Capital assets:	
Land	99,529
Plant, equipment and lines	23,453,598
Construction in process	60,092
Less accumulated depreciation	(10,339,757)
Total Noncurrent Assets	13,273,462
Deferred Outflows of Resources	275,131
Total Assets and Deferred Outflows of Resources	$ 14,617,399
LIABILITIES	
Current Liabilities	
Accrued expenses	$ 109,369
Accrued taxes	27,170
Accrued interest	72,845
Bonds/notes payable	237,000
Customer deposits payable	35,796
Total Current Liabilities	482,180
Noncurrent Liabilities	
Bonds/notes payable	4,841,099
Net pension liability	669,904
Net OPEB liability	201,113
Total Noncurrent Liabilities	5,712,116
Deferred Inflows of Resources	343,179
Total Liabilities and Deferred Inflows of Resources	6,537,475
NET POSITION	
Net investment in capital assets	8,195,363
Restricted	335,369
Unrestricted	(450,808)
Total Net Position	$ 8,079,924

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

Big Sandy Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended December 31, 2021

Revenues	
User fees	$ 2,602,146
Other water revenue	85,148
Other revenue	642
Total Revenues	2,687,936
Expenses	
Wages	461,083
Commissioners expense	142
Taxes	38,002
Employee benefits	207,869
Purchased water	1,069,754
Purchased power	108,342
Materials & supplies	101,842
Contractual services	99,676
Transportation expenses	38,199
Equipment expense	20,587
Rental equipment	6,781
Insurance	33,429
Postage	20,838
Other expense	45,510
Telephone	8,279
Depreciation	485,651
Total Operating Expenses	2,745,984
Operating Income (Loss)	(58,048)
Nonoperating Revenues (Expenses)	
Tap fees	47,944
Federal grants	191,317
Interest expense	(124,280)
Interest income	227
Net Nonoperating Revenues (Expenses)	115,208
Change in Net Position	57,160
Total Net Position - beginning	7,936,868
Prior period adjustment	85,896
Total Net Position - ending	$ 8,079,924

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

Big Sandy Water District
Statement of Cash Flows
Proprietary Fund
For the year ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	$ 2,734,340
Cash paid to employees	(461,083)
Cash paid for general and administrative expenses	(1,722,162)
Net Cash provided / (used) by operating activities	551,095
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	227
Customer deposits	(25,062)
Net Cash provided / (used) by investing activities	(24,835)
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Tap fees	47,944
Purchase of capital assets	(539,849)
Prior period adjustment to capitalize items from prior year	85,896
Bond/note payments - principal	(234,248)
Bond/note payments - interest	(124,280)
Capital grant	191,317
Net cash provided / (used) in capital and financing activities	(573,220)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(46,960)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	676,195
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 629,235
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Change in Net Position	$ (58,048)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:	
depreciation	485,651
(increase) / decrease in accounts receivable	46,404
(increase) / decrease in prepaid expenses	(62,289)
increase / (decrease) in pension/OPEB expense due to GASB 68/75	9,227
(increase) / decrease in inventory	131,030
increase / (decrease) in accounts payable	(880)
Net cash provided / (used) by operating activities	$ 551,095

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

Note 1 - Summary of Significant Accounting Policies

The Big Sandy Water District is a water utility which services areas of Boyd, Carter, Johnson and Lawrence Counties. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1981. The District is subject to the regulatory District of the Kentucky Public Service Commission pursuant to KRS 278.040.

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 Big Sandy 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 Reserve Fund - Monthly transfers are required to be made into this fund until it reaches the fully funded level of $233,400. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside $136,748 into this fund at December 31, 2021. The required balance at December 31, 2021 is $108,200.

Bond and Interest Sinking Fund (USDA) - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2021 was $174,886. The District had set aside $12,143.

Bond and Interest Sinking Fund (KRWFC) - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2021 was $61,566. The District had set aside $222,274.

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 assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, 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.

Enterprise Funds

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.

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 recorded at lower of cost or market valued on the FIFO method.

Cash

At December 31, 2021, the carrying amount of the District's deposits was $629,235 and the bank balance was $683,703. 100% of deposits were covered by FDIC, pledged securities or government funds. The District considers all investments with a maturity of three 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.

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:

Class	Life
Lines and tanks	50 years
Hydrants	30 years
Meters	20 years
Equipment	10 years
Vehicles	5 years

The District's capitalization policy is as follows: expenditures costing more than $5,000 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.

Investments
Investments, if any, are carried at cost which is the lower of cost or fair market value.

Accounts Receivable
The receivable reflected in the statements in the amount of $301,138 is net of allowance for uncollectible in the amount of $10,747.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in Unites 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.

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2021, eight separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A
Lender – USDA
Original amount of loan - $1,050,000
Balance of loan - $951,500
Rate – 2.75%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2022	$ 18,000	$ 25,919	$ 43,919
2023	18,500	25,407	43,907
2024	19,000	24,901	43,901
2025	19,500	24,372	43,872
2026	20,000	23,829	43,829
2027-2031	109,000	110,454	219,454
2032-2036	125,000	94,380	219,380
2037-2041	143,000	75,969	218,969
2042-2046	164,000	54,890	218,890
2047-2051	187,500	30,766	218,266
2052-2054	128,000	5,418	133,418
Total	$ 951,500	$ 496,305	$ 1,447,805

Note B
Lender – USDA
Original amount of loan - $115,000
Balance of loan - $106,000
Rate – 3.25%
Principal due – January 1
Interest due January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2022	$ 1,500	$ 3,421	$ 4,921
2023	1,500	3,372	4,872
2024	2,000	3,315	5,315
2025	2,000	3,250	5,250
2026	2,000	3,185	5,185
2027-2031	10,500	14,942	25,442
2032-2036	13,000	13,033	26,033
2037-2041	15,500	10,717	26,217
2042-2046	18,500	7,971	26,471
2047-2051	22,500	4,656	27,156
2052-2054	17,000	894	17,894
Total	$ 106,000	$ 68,756	$ 174,756

Note C
Lender – USDA
Original amount of loan - $1,670,000
Balance of loan - $1,670,000
Rate – 1.50%
The bonds were sold at a premium of $84,203, which is being amortized over the term of the bond. The unamortized bond premium is recorded as a noncurrent liability. The premium amortization which is a decrease to interest expense was $5,263 for 2020. The unamortized bond premium at December 31, 2021 was $63,151.
Principal due – January 1
Interest due – January 1 and July 1

Maturities			
	Principal	Interest	Total Payment
2022	$ 22,000	$ 24,570	$ 46,570
2023	22,000	24,240	46,240
2024	23,000	23,903	46,903
2025	24,000	23,550	47,550
2026	25,000	22,808	47,808
2027-2031	135,000	110,063	245,063
2032-2036	160,000	99,000	259,000
2037-2041	186,000	86,055	272,055
2042-2046	219,000	70,913	289,913
2047-2051	257,000	53,093	310,093
2052-2056	300,000	32,250	332,250
2057-2060	276,000	8,415	284,415
Total	$ 1,649,000	$ 578,860	$ 2,227,860

Note D
Lender – USDA
Original amount of loan - $395,000
Balance of loan - $395,000
Rate – 1.50%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2022	$ 5,500	$ 5,801	$ 11,301
2023	6,000	5,715	11,715
2024	6,000	5,625	11,625
2025	6,000	5,535	11,535
2026	6,500	5,441	11,941
2027-2031	34,500	25,706	60,206
2032-2036	39,500	22,931	62,431
2037-2041	45,500	19,744	65,244
2042-2046	52,000	16,088	68,088
2047-2051	59,000	11,940	70,940
2052-2056	68,000	7,185	75,185
2057-2060	61,000	1,868	62,868
Total	$ 389,500	$ 133,579	$ 523,079

Note E
Lender – KRWFC
Original amount of loan - $910,000
Balance of loan - $395,000
Rate - 4.300%
Principal & interest due – February 1, 2020

Maturities			
	Principal	Interest	Total Payment
2022	$ 70,000	$ 11,255	$ 81,255
2023	60,000	8,310	68,310
2024	25,000	6,270	31,270
2025	30,000	5,025	35,025
2026	30,000	3,923	33,923
2027-2029	105,000	5,528	110,528
Total	$ 320,000	$ 40,311	$ 360,311

Note F
Lender – KRWFC
Original amount of loan - $1,730,000
Balance of loan - $1,730,000
Rate – 5.20%

Maturities			
	Principal	Interest	Total Payment
2022	$ 120,000	$ 62,105	$ 182,105
2023	125,000	55,735	180,735
2024	135,000	48,975	183,975
2025	140,000	41,825	181,825
2026	145,000	34,415	179,415
2027-2031	540,000	90,141	630,141
2032-2036	330,000	26,605	356,605
2037-2040	85,000	4,087	89,087
Total	$ 1,620,000	$ 363,888	$ 1,983,888

Note G
Lender – Kubota Credit Corporation
Original amount of loan - $59,970
Balance of loan - $0
Rate –0%
Principal- monthly payments of $1,249

	Outstanding 1/1/2021	Issued	Retired	Outstanding 12/31/2021	Due Within One Year
Bonds Payable					
USDA 91-16	$ 969,000	$ -	$ 17,500	$ 951,500	$ 18,000
USDA 91-18	107,500	-	1,500	106,000	1,500
USDA 91-20	1,670,000	-	21,000	1,649,000	22,000
USDA 91-22	395,000	-	5,500	389,500	5,500
Kentucky Rural Water 2013	395,000	-	75,000	320,000	70,000
Kentucky Rural Water 2020	1,730,000	-	110,000	1,620,000	120,000
Bond Premium	42,099		-	42,099	-
Notes Payable					
Kubota	3,748	-	3,748	-	-
Total bonds payable	5,308,599	-	230,500	5,078,099	237,000
Total notes payable	3,748	-	3,748	-	-
Total bonds/notes payable	$ 5,312,347	$ -	$ 234,248	$ 5,078,099	$ 237,000

Note 3 - Leave Policies
The District's employees are covered by leave policies as follow:

a) sick leave – one day per month to a maximum accumulation of sixty days;
b) annual leave – five days per annum with 1-2 years employment; ten days per annum with 3-9 years employment; fifteen days per annum after 10 years employment. One week of annual leave may be carried forward to the next year, but must be taken by March 31st of that year. Up on the retirement, termination of or medical retirement of an employee the District shall continue to employ and pay the employee for any accrued earned vacation days. The employee termination date shall be the last day of earned vacation paid.

Note 4 - 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 5 - Changes in Capital Assets

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

	Balance, 12/31/2020	Additions/ Transfers	Deletions	Balance, 12/31/2021
Land, non-depreciable	$ 99,529	$ -	$ -	$ 99,529
Construction in process, non-depreciable	2,631,922	60,092	2,631,922	60,092
Structures & improvements	121,531	630,101	57,018	694,613
Pumping equipment	310,808	12,120	-	322,928
Distribution reservoir & standpipe	1,223,302	-	-	1,223,302
Transmission & distribution mains	11,311,096	2,203,635	-	13,514,731
Services	5,101,924	-	-	5,101,924
Meters & meter installation	1,218,844	265,359	-	1,484,203
Hydrants	227,402	-	-	227,402
Other plant & misc. equipment	14,583	-	-	14,583
Office furniture & equipment	126,766	1	-	126,767
Transportation equipment	235,288	-	-	235,288
Tools, shop & garage	46,121	-	-	46,121
Power operated equipment	207,409	-	-	207,409
Communication equipment	6,014	-	-	6,014
Miscellaneous equipment	11,484	7,200	-	18,684
Other tangible plant	154,543	50,282	-	204,825
Utility plant acquisition adjustment	24,805	-	-	24,805
Total capital assets, gross	23,073,369	3,228,789	2,688,940	23,613,218
Accumulated depreciation	9,854,106	485,651	-	10,339,757
Capital assets, net of accumulated depreciation	$ 13,219,263			$ 13,273,461

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account.

Note 7 - Restricted Cash

Restricted cash is composed of the following:

Depreciation reserve fund	$ 136,748
Debt reserve (USDA)	12,143
Debt reserve Regions (KRWFC)	222,274
	$ 371,165

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, 2021. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Questioned Costs” section of this report.

Note 9 - Investments

The District's investment policy is governed by the Kentucky Statutes. These requirements authorize the District to invest in obligations backed by full faith and credit of the United States and obligations of any corporation of the United States government. The policy requires that amounts on deposit with financial institutions be collateralized at a rate of 100% of amounts in excess of deposit insurance coverage.

Note 10 – Defined Benefit Pension Plan

General Information About the Pension Plan

Plan description - Regular, full-time, employees of the District 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	65,414
Inactive plan members entitled to but not yet receiving benefits	95,692
Active plan members	81,250
Total plan members	242,356

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, 2021 and 2020, 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

				Employer		
Period	Pension	Insurance	Total	Pension	Insurance	Employee
01/01/2021-06/30/2021	19.30%	4.76%	24.06%	$ 27,799	$ 6,856	$ 7,202
07/01/2021-12/31/2021	21.17%	5.78%	26.95%	28,229	6,962	7,313
Totals				$ 56,028	$ 13,818	$ 14,515

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 $669,904 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 District's portion of the net pension liability was based on the District's proportionate share of retirement contributions for the fiscal year ended June 30, 2021. On June 30, 2021 the District's proportionate share was 0.010507.

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, 2021, the District recognized pension expense of $63,510. On December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Liability Experience	$ 7,693	$ 6,502
Changes in assumptions	8,991	-0-
Differences between expected and actual Investment Experience	25,988	115,275
Changes in proportion and differences between employer contributions and proportionate share of contributions	63,546	66,230
Contributions subsequent to the measurement date	28,229	-0-
Total	$ 134,447	$ 188,007

$28,229 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended

December 31, 2021. The remaining amount of $(81,789) 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:

Year Ended December 31,	Amount
2022	$14,579
2023	(46,088)
2024	(22,321)
2025	(27,959)
2026	-0-
Thereafter	-0-
Total	$ (81,789)

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, 2021:

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 - June 30, 2018
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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	**68.50%**	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity	**11.50%**	
Core Bonds	10.00%	0.00%
Cash	1.50%	(.60)%
Diversifying Strategies	**20.00%**	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	n/a
Real Return	10.00%	4.55%
Expected Reat Return	**100.00%**	
Long Term Inflation Assumption		2.30%

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 6.25% was used to measure the total pension liability for the non-hazardous fund and the hazardous fund for the fiscal year ending June 30, 2021. The single discount rate determined for each fund is based on the expected rate of return on pension plan investments for each fund. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the non-hazardous and hazardous pension funds' fiduciary net position and future contributions were separately projected and were each sufficient to finance all the future benefit payments of the current fund 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 fund.

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 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

If there is a future pattern of legislation that has a resulting effect of employers making contributions less than the actuarially determined rate, we may be required to project contributions that are reflective of recent actual contribution efforts regardless of the stated funding policy (as required by paragraph 66 of GASB Statement No. 68).

Note, a single discount rate of 6.25% was used for the reporting and disclosure of the CERS pension plan under GASB Statement No. 67. This single discount rate disclosed for the plan is based on the 6.25% discount rate used for both the non-hazardous fund and the hazardous fund to measure the total pension liability for the fiscal year ending June 30, 2021.

Methodology for Proportionate Shares

The proportionate share of the Collective Pension Amounts for employers that participate in this cost-sharing multiple employer plan is provided in Appendix A and Appendix B of this report. In accordance with Paragraph 49 of GASB Statement No. 68, the proportionate share was determined separately for the Collective Pension Amounts attributable to the non-hazardous fund and hazardous fund.

The proportionate share of the Collective Pension Amounts for employers that participate in the CERS non-hazardous and hazardous pension funds was determined using the employers' actual contributions for the fiscal year ending June 30, 2021. 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 during fiscal year ending June 30, 2021 for either the non-hazardous or hazardous funds.

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 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate for non-hazardous:

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Proportionate share of the net pension liability	$ 859,183	$ 669,904	$ 513,279

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 11 - 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, 2020. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles. This information was determined separately for the non-hazardous pension fund and the hazardous pension fund.

There have been no actuarial assumption or method changes since June 30, 2020. 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 pension 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. 68.

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

Paragraph 57 of GASB No. 68 indicates that employer contributions made subsequent to the measurement date of the Net Pension Liability and prior to the end of the employer's reporting period should be reported by the employer as a deferred outflow of resources related to pensions. The information contained in this report does not incorporate any contributions made to the pension plan subsequent to June 30, 2021.

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, net OPEB 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.

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.

Asset Class	Target Allocation	Real Rate of Return
Growth	**68.50%**	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity	**11.50%**	
Core Bonds	10.00%	0.00%
Cash	1.50%	(.60)%
Diversifying Strategies	**20.00%**	
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 Return for Portfolio		7.30%

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 6.25% was used to measure the total pension liability for the non-hazardous fund and the hazardous fund for the fiscal year ending June 30, 2021. The single discount rate determined for each fund is based on the expected rate of return on pension plan investments for each fund. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the non-hazardous and hazardous pension funds' fiduciary net position and future contributions were separately projected and were each sufficient to finance all the future benefit payments of the current fund 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 fund.

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 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

If there is a future pattern of legislation that has a resulting effect of employers making contributions less than the actuarially determined rate, we may be required to project contributions that are reflective of recent actual contribution efforts regardless of the stated funding policy (as required by paragraph 66 of GASB Statement No. 68).

Note, a single discount rate of 6.25% was used for the reporting and disclosure of the CERS pension plan under GASB Statement No. 67. This single discount rate disclosed for the plan is based on the 6.25% discount rate used for both the non-hazardous fund and the hazardous fund to measure the total pension liability for the fiscal year ending June 30, 2021.

Methodology for Proportionate Shares

The proportionate share of the Collective Pension Amounts for employers that participate in this cost sharing multiple employer plan is provided in Appendix A and Appendix B of this report. In accordance with Paragraph 49 of GASB Statement No. 68, the proportionate share was determined separately for the Collective Pension Amounts attributable to the non-hazardous fund and hazardous fund. The proportionate share of the Collective Pension Amounts for employers that participate in the CERS non-hazardous and hazardous pension funds was determined using the employers' actual contributions for the fiscal year ending June 30, 2021. 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 during fiscal year ending June 30, 2021 for either the non-hazardous or hazardous funds.

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, 2020:

Determined by the Actuarial Valuation as of:	June 30, 2019
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 *Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases*
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 3.55% to 19.05% for CERS 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 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2020 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 5.50% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
CERS Phase-in Provisions:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

Implicit Subsidy

KPPA pays fully insured premiums for the Kentucky Health Plan. The premiums are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability. The District's implicit subsidy for the year ended December 31, 2021 was $6,617.

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, 2021 and 2020, 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

				Employer		
Period	Pension	Insurance	Total	Pension	Insurance	Employee
01/01/2021-06/30/2021	19.30%	4.76%	24.06%	$ 27,799	$ 6,856	$ 7,202
07/01/2021-12/31/2021	21.17%	5.78%	26.95%	28,229	6,962	7,313
Totals				$ 56,028	$ 13,818	$ 14,515

Contributions including implicit subsidy $18,721

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, 2021, the District reported a liability of $201,113 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020, rolled-forward to June 30, 2021 using generally accepted actuarial principles. The District's proportion of the net OPEB liability was determined using the District's actual contributions for the year ended June 30, 2021. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2021, the District's proportion was 0.010505% which is equal to its proportion measured as of June 30, 2021.

For the year ended December 31, 2021, the District recognized OPEB expense of $17,559. On December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability experience	$ 31,625	$ 60,046
Effects of changes in assumptions	53,319	187
Differences between projected and actual earnings on plan investments	10,133	41,594
Changes in proportion and differences between employer contributions and proportionate share of contributions	32,028	53,345
Contributions subsequent to the measurement date + implicit subsidy	13,579	-0-
Total	$ 140,684	$ 155,172

$13,579 reported of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2021. 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:

Year Ended December 31,	Amount
2022	$ (3,382)
2023	(8,141)
2024	107
2025	(16,651)
2026	-0-
Thereafter	-0-
Total	$ (28,067)

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 5.34%, 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% lower (4.34%) or 1% higher (6.34%) than the current rate:

	Discount Rate	Proportionate Share of Net OPEB Liability
1% decrease	4.34%	$ 276,127
Current discount rate	5.34%	$ 201,113
1% increase	6.34%	$ 139,552

Sensitivity of the District'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:

	Proportionate Share of Net OPEB Liability
1% decrease	$ 144,777
Current healthcare cost trend rate	$ 201,113
1% increase	$ 269,111

Note 12- Overland Development

During 2016, the District acquired Overland Development Inc. (Overland). The District acquired the water utility system, including its water lines and approximately 116 meters. Overland services the Lockwood Estates area of Boyd County, Kentucky. The District paid $50,000 to acquire Overland and will pay Overland an additional $50,000 over the next sixty months ($833.33/month) for consulting services. No provision has been made for the monthly payments. These monthly payments will be recognized as an expense monthly, as the consulting services are provided.

At the time of acquisition, Overland's capital assets totaled $124,728 and its accumulated depreciation on the assets totaled $99,533. The District has included these amounts with its capital assets and accumulated depreciation. As a result, an acquisition adjustment of $24,805 has also been included and is being amortized accordingly.

Note 13 – Subsequent Events

The District has evaluated subsequent events through July 20, 2022 the date which the financial statements were available to be issued.

Subsequent Event - Coronavirus Pandemic:

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the entity's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the customers' ability to pay their bills. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of customers to continue making payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

Note 14 – Prior Period Adjustment

Capitalize assets from prior year - $85,896

REQUIRED SUPPLEMENTARY INFORMATION

Big Sandy Water District
Schedule of Employer's Proportionate Share of Net Pension Liability
December 31, 2021

	Measurement Date				
	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021
Proportion of the net pension liability (asset)	0.001369%	0.008719%	0.009392%	0.011944%	0.010507%
Proportionate share of the net pension liability (asset)	$ 801,493	$ 531,014	$ 660,544	$ 916,095	$ 669,904
Covered employee payroll	$ 340,789	$ 340,879	$ 354,639	$ 293,728	$ 289,037
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	235.19%	155.78%	186.26%	311.89%	231.77%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	53.54%	50.45%	47.81%	57.33%

	Measurement Date	
	6/30/2015	6/30/2016
Proportion of the net pension liability (asset)	0.014640%	0.001436%
Proportionate share of the net pension liability (asset)	$ 629,451	$ 707,032
Covered employee payroll	$ 334,849	$ 342,371
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	187.98%	206.51%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%

Big Sandy Water District
Schedule of Employer's Contributions - Net Pension Liability
December 31, 2021

	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
Contractually required contribution	$ 36,170	$ 48,213	$ 74,061	$ 50,778	$ 56,028
Contributions in relation to the contractually required contribution	36,170	48,213	74,061	50,778	56,028
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 255,681	$ 314,297	$ 415,546	$ 286,831	$ 290,300
Contributions as a percentage of covered employee payroll	14.15%	15.34%	17.82%	17.70%	19.30%

	12/31/2015	12/31/2016
Contractually required contribution	$ 43,278	$ 46,709
Contributions in relation to the contractually required contribution	43,278	46,709
Contribution deficiency (excess)	$ -	$ -
Covered employee payroll	$ 343,796	$ 353,920
Contributions as a percentage of covered employee payroll	12.59%	13.20%

Big Sandy Water District
Schedule of Employer's Proportionate Share of Net OPEB Liability
December 31, 2021

	Measurement Date				
	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021
Proportion of net OPEB liability (asset)	0.0136930%	0.008731%	0.009390%	0.011940%	0.010505%
Proportionate share of net OPEB liability (asset)	$ 275,276	$ 155,017	$ 157,936	$ 288,135	$ 201,113
Covered employee payroll	$ 340,789	$ 253,775	$ 354,639	$ 293,728	$ 289,037
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	80.78%	61.08%	44.53%	98.10%	69.58%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	51.67%	62.91%

Big Sandy Water District
Schedule of Employer's Contributions - Net OPEB Liability
December 31, 2021

	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
Statutorily required contribution	$ 12,579	$ 15,122	$ 20,777	$ 14,397	$ 13,818
Contributions in relation to the statutorily required contribution	12,579	15,122	20,777	14,397	13,818
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 255,681	$ 314,297	$ 415,546	$ 286,831	$ 290,300
Contributions as a percentage of covered-employee payroll	4.92%	4.81%	5.00%	5.02%	4.76%

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 morality experience from 2013-2018, projected with the ultimate rates from MP-2014 morality 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 form 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.
- 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*

Board of Commissioners
Big Sandy Water District
Catlettsburg, 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 Big Sandy Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Big Sandy Water District's basic financial statements, and have issued our report thereon dated July 20, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Big Sandy 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Big Sandy Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Big Sandy 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Big Sandy 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

July 20, 2022

Big Sandy Water District

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2020 and December 31, 2021

	2020	2021
Revenues		
User fees	$ 2,655,072	$ 2,602,146
Other water revenue	29,322	85,148
Other revenue	4,936	642
Total Revenues	2,689,330	2,687,936
Expenses		
Wages	459,241	461,083
Commissioners expense	375	142
Taxes	42,716	38,002
Employee benefits	241,808	207,869
Purchased water	1,105,518	1,069,754
Purchased power	94,226	108,342
Materials & supplies	305,855	101,842
Contractual services	180,792	99,676
Transportation expenses	36,425	38,199
Equipment expense	11,048	20,587
Rental equipment	-	6,781
Insurance	27,505	33,429
Postage	17,205	20,838
Other expense	14,464	45,510
Telephone	9,040	8,279
Advertising	332	-
Depreciation	475,021	485,651
Total Operating Expenses	3,021,571	2,745,984
Operating Income (Loss)	(332,241)	(58,048)
Nonoperating Revenues (Expenses)		
Tap fees	49,280	47,944
Federal grants	653,683	191,317
Miscellaneous income - nonoperating	13,486	-
Interest expense	(90,649)	(124,280)
Interest income	751	227
Net Nonoperating Revenues (Expenses)	626,551	115,208
Change in Net Position	$ 294,310	$ 57,160

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