CANNONSBURG WATER DISTRICT

Ashland, 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
Cannonsburg Water District
Ashland, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Cannonsburg 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 Cannonsburg 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 Cannonsburg Water District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and is 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 and expenses 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 June 13, 2022, on our consideration of the Cannonsburg 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 Cannonsburg Water District's internal control over financial reporting and compliance.

Lane & Company LLC

Mount Sterling, Kentucky

June 13, 2022
This report contains 28 pages.

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

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	$ 721,383
Cash and cash equivalents - restricted	1,108,062
Accounts receivable - net of allowance for doubtful accounts	309,279
Inventory	128,013
Prepaid expenses	3,626
Total Current Assets	2,270,363
Noncurrent Assets	
Capital assets: (note 1)	
Plant, equipment and lines	10,221,710
Less accumulated depreciation	(4,940,955)
Total Noncurrent Assets	5,280,755
Deferred Outflows of Resources	373,257
Total Assets and Deferred Outflows of Resources	$ 7,924,375

LIABILITIES

Current Liabilities	
Accrued liabilities	$ 205,582
Accrued interest	4,223
Deposits payable	24,100
Bonds/notes payable	66,000
Total Current Liabilities	299,905
Noncurrent Liabilities	
Net pension liability	1,054,874
Net OPEB liability	316,669
Bonds/notes payable	1,669,000
Total Noncurrent Liabilities	3,040,543
Deferred Inflows of Resources	367,973
Total Liabilities and Deferred Inflows of Resources	3,708,421

NET POSITION

Net investment in capital assets	3,545,755
Restricted	1,083,962
Unrestricted	(413,763)
Total Net Position	$ 4,215,954

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

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

Operating Revenues	
Water sales	$ 2,827,688
Penalties & charges	58,494
Other income	10,258
Total Operating Revenues	2,896,440
Operating Expenses	
Purchased water	928,752
Salaries & wages	470,856
Payroll taxes	28,503
Contractual services	121,200
Employee insurance	232,774
Retirement	150,639
Other insurance	50,488
Operations, maintenance, repairs & supplies	14,920
Utilities	70,549
Telephone	8,582
Materials & supplies	92,723
Fuel	22,746
Water testing	8,984
Depreciation	261,479
Other billing expenses	9,416
Other taxes	1,993
Dues and subscriptions	29,052
Miscellaneous expenses	334,152
Total Operating Expenses	2,837,808
Operating Income (Loss)	58,632
Nonoperating Revenues (Expenses)	
Tap fees	16,500
Interest income	819
Interest expense	(53,629)
Net Nonoperating Revenues (Expenses)	(36,310)
Change in Net Position	22,322
Total Net Position - beginning	4,193,632
Total Net Position - ending	$ 4,215,954

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

Cannonsburg Water District
Statement of Cash Flows
Proprietary Fund
December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	$ 2,777,875
Cash paid to employees	(470,856)
Cash paid for general and administrative expenses	(2,104,008)
Net Cash provided / (used) by operating activities	203,011
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	819
Customer deposits	3,950
Net Cash provided / (used) by investing activities	4,769
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Tap fees	16,500
Bond/note payments - principal	(48,000)
Purchase of capital assets	1
Bond/note payments - interest	(62,286)
Net Cash provided / (used) in capital and financing activities	(93,785)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	113,995
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,715,450
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 1,829,445
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	$ 58,632
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(increase) / decrease in prepaid expenses	5,291
(increase) / decrease in inventory	(34,974)
(increase) / decrease in accounts receivable	(118,565)
depreciation	261,479
increase / (decrease) in pension/OPEB expense due to GASB 68/75	41,544
increase / (decrease) in accounts payable	(10,396)
Net cash provided / (used) by operating activities	$ 203,011

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

The Cannonsburg Water District is a water utility which services areas of Boyd County. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statues (KRS) 74.070 which was created November, 1961. The District began operations in 1956. 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 Cannonsburg 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.

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. The required balance in the account on December 31, 2021 was $112,428; the actual balance was $285,740.

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, 2021, the carrying amount of the District's deposits was $1,715,446 and the bank balance was $1,722,711. 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
CNB Operations & Maintenance	$ 260,691	$ -	$ 260,691
CNB Water Revenue	356,844	-	356,844
CNB Bond & Interest	-	217,399	217,399
CNB New Customer	55,130	-	55,130
CNB PSC Surcharge	-	650,866	650,866
CNB Bond & Interest CD	-	68,341	68,341
CNB Line Replacement & Extension CD	-	78,855	78,855
CNB Depreciation CD	-	92,601	92,601
Regions Bank	47,718	-	47,718
Petty cash	1,000	-	1,000
Totals	$ 721,383	$ 1,108,062	$ 1,829,445

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
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 $309,279 are net of allowance for uncollectible in the amount of $36,018.

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.

Note 2 – 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%	$ 41,352	$ 10,199	$ 10,713
07/01/2021-12/31/2021	21.17%	5.78%	26.95%	49,945	13,636	11,796
Totals				$ 91,297	$ 23,835	$ 22,509

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 $1,054,974 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 0.016545%.

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 $124,244. 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	$ 12,113	$ 10,238
Changes in assumptions	14,158	-0-
Differences between expected and actual Investment Experience	40,922	181,519
Changes in proportion and differences between employer contributions and proportionate share of contributions	62,572	5,030
Contributions subsequent to the measurement date	49,945	-0-
Total	$ 179,710	$ 196,787

$49,945 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 $(67,022) 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	$17,116
2023	(9,986)
2024	(30,124)
2025	(44,028)
2026	-0-
Thereafter	-0-
Total	$ (67,022)

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	$ 1,352,925	$ 1,054,874	$ 808,243

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, 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 $10,420.

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%	$ 41,352	$ 10,199	$ 10,713
07/01/2021-12/31/2021	21.17%	5.78%	26.95%	49,945	13,636	11,796
Totals				$ 91,297	$ 23,835	$ 22,509

Contributions including implicit subsidy $29,479

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 $316,669 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 0.016541% 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 $42,943. 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	$ 49,796	$ 94,547
Effects of changes in assumptions	83,955	294
Differences between projected and actual earnings on plan investments	15,955	65,493
Changes in proportion and differences between employer contributions and proportionate share of contributions	19,785	10,852
Contributions subsequent to the measurement date + implicit subsidy	24,056	-0-
Total	$ 193,547	$ 171,186

$24,056 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	$ 9,969
2023	2,441
2024	2,232
2025	(16,337)
2026	-0-
Thereafter	-0-
Total	$ (1,695)

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%	$ 434,784
Current discount rate	5.34%	$ 316,669
1% increase	6.34%	$ 219,736

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	$ 227,964
Current healthcare cost trend rate	$ 316,669
1% increase	$ 423,737

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, 2021, two separate loans/bonds had outstanding balances. Details of each of these issues are summarized as follows:

Note 4a

Lender – Kentucky Rural Water Finance Corporation (KRWFC)
Original loan amount - $416,000
Balance of loan – $163,000
Rate – 4.15-5.15%
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	Principal	Interest	Trustee Fees	Total Payment
2022	$ 40,000	$ 7,416	$ 250	$ 47,666
2023	42,000	5,305	250	47,555
2024	45,000	3,065	250	48,315
2025	36,000	953	250	37,203
Totals	$ 163,000	$ 16,739	$ 1,000	$ 180,739

Note 4b

Lender – United States Department of Agriculture (USDA)
Original loan amount - $1,668,000
Balance of loan – $1,572,000
Rate – 2.50%
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 Payment
2022	$ 26,000	$ 39,925	$ 65,925
2023	27,000	39,300	66,300
2024	28,000	38,650	66,650
2025	29,000	37,975	66,975
2026	30,000	36,550	66,550
2027-2031	165,000	171,000	336,000
2032-2036	192,000	149,100	341,100
2037-2041	225,000	123,475	348,475
2042-2046	263,000	93,525	356,525
2047-2051	310,000	58,375	368,375
2052-2055	277,000	17,275	294,275
Totals	$ 1,572,000	$ 805,150	$ 2,377,150

The following is a summary of changes in long-term obligations for the year:

	Outstanding 1/1/2021	Issued	Retired	Outstanding 12/31/2021	Due Within One Year
USDA	$ 1,597,000	$ -	$ 25,000	$ 1,572,000	$ 26,000
KRWFC	186,000	-	23,000	163,000	40,000
Total	$ 1,783,000	$ -	$ 48,000	$ 1,735,000	$ 66,000

Total interest paid during the year on long-term debt was $53,629.

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 1/1/2021	Additions/ Transfers	Deletions	Balance 12/31/2021
Land, non-depreciable	$ 20,810	$ -	$ -	$ 20,810
Utility plant and equipment	9,510,392	690,508	-	10,200,900
Construction in process, non-depreciable	690,508	-	690,508	0
	$ 10,221,710	$ 690,508	$ 690,508	$ 10,221,710
Accumulated depreciation	$ 4,679,476	$ 261,479	$ -	$ 4,940,955
Capital assets, net of accumulated depreciation	$ 5,542,234	$ 429,029	$ 690,508	$ 5,280,755

Note 7 - Revenue Bonds – Bond & Sinking Fund Requirements

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. The required balance in the account on December 31, 2021 was $94,117; the actual balance was $612,526.

Note 8 - Restricted Cash

Restricted cash is composed of the following:

Account Description	Amount
Depreciation reserve	$ 92,601
Bond & interest	285,740
Surcharge	650,866
Line replacement	78,855
Total Restricted Cash	$ 1,108,062

Note 9 – 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 Responses section of this report.

Note 10 – Subsequent Events

The District has evaluated subsequent events through June 13, 2022, and that is the date that 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. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

Note 11 - Noncurrent Liabilities

Description	Balance, 01/01/2021	Additions	Subtractions	Balance, 12/31/2021	Current Portion	Noncurrent Portion
Bonds payable	$ 1,783,000	$ -	$ 48,000	$ 1,735,000	$ 66,000	$ 1,669,000
NPL	1,200,726	-	145,852	1,054,874	-	1,054,874
OPEB	377,924	-	61,255	316,669	-	316,669
	$ 3,361,650	$ -	$ 255,107	$ 3,106,543	$ 66,000	$ 3,040,543

REQUIRED SUPPLEMENTARY INFORMATION

Cannonsburg 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)	0.016064%	0.015700%	0.014899%	0.015655%	0.016545%
Proportionate share of the net pension liability (asset)	$ 940,275	$ 957,700	$ 1,047,853	$ 1,200,726	$ 1,054,874
Covered employee payroll	$ 391,122	$ 381,944	$ 375,817	$ 401,008	$ 422,603
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	240.40%	250.74%	278.82%	299.43%	249.61%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	53.32%	53.54%	50.45%	57.33%

	Measurement Date	
	6/30/2015	6/30/2016
Proportion of the net pension liability (asset)	0.015284%	0.017440%
Proportionate share of the net pension liability (asset)	$ 496,000	$ 858,552
Covered employee payroll	$ 386,145	$ 390,679
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	128.45%	219.76%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%

Cannonsburg 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	$ 57,115	$ 56,732	$ 70,389	$ 72,165	$ 91,297
Contributions in relation to the contractually required contribution	57,115	56,732	70,389	72,165	91,297
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 401,645	$ 369,613	$ 395,228	$ 405,350	$ 450,184
Contributions as a percentage of covered employee payroll	14.22%	15.35%	17.81%	17.80%	20.28%

	12/31/2015	12/31/2016
Contractually required contribution	$ 48,586	$ 51,494
Contributions in relation to the contractually required contribution	48,586	51,494
Contribution deficiency (excess)	$ -	$ -
Covered employee payroll	$ 386,145	$ 390,679
Contributions as a percentage of covered employee payroll	12.58%	13.18%

Cannonsburg 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)	0.0160640%	0.015725%	0.014899%	0.015651%	0.016541%
Proportionate share of net OPEB liability (asset)	$ 322,941	$ 279,194	$ 250,527	$ 377,924	$ 316,669
Covered employee payroll	$ 391,122	$ 381,944	$ 375,817	$ 401,008	$ 422,603
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	82.57%	73.10%	66.66%	94.24%	74.93%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	51.67%	62.91%

Cannonsburg 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	$ 18,936	$ 18,406	$ 19,769	$ 20,280	$ 23,835
Contributions in relation to the statutorily required contribution	18,936	18,406	19,769	20,280	23,835
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 401,645	$ 369,613	$ 395,228	$ 405,350	$ 390,679
Contributions as a percentage of covered-employee payroll	4.71%	4.98%	5.00%	5.00%	6.10%

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.

SUPPLEMENTARY INFORMATION

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

Board of Commissioners
Cannonsburg Water District
Ashland, 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 Cannonsburg Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Cannonsburg Water District's basic financial statements, and have issued our report thereon dated June 13, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cannonsburg 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 Cannonsburg Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cannonsburg 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 Cannonsburg 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

June 13, 2022

Cannonsburg Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the years ended December 31, 2020 and December 31, 2021

	2020	2021
Operating Revenues		
Water sales	$ 3,344,525	$ 2,827,688
Penalties & charges	26,111	58,494
Other income	9,810	10,258
Total Operating Revenues	3,380,446	2,896,440
Operating Expenses		
Purchased water	1,089,595	928,752
Salaries & wages	455,294	470,856
Payroll taxes	38,971	28,503
Other taxes	5,058	1,993
Contractual services	57,082	121,200
Employee insurance	170,095	232,774
Retirement	213,313	150,639
Other insurance	64,753	50,488
Operations, maintenance, repairs & supplies	16,688	14,920
Utilities	69,534	70,549
Telephone	7,640	8,582
Materials & supplies	67,479	92,723
Fuel	15,890	22,746
Water testing	11,010	8,984
Depreciation	198,163	261,479
Other billing expenses	22,367	9,416
Water loss surcharge	43,256	-
Dues and subscriptions	35,756	29,052
Miscellaneous expenses	84,377	334,152
Total Operating Expenses	2,666,321	2,837,808
Operating Income (Loss)	714,125	58,632
Nonoperating Revenues (Expenses)		
Tap fees	16,675	16,500
Interest income	3,249	819
Interest expense	(50,557)	(53,629)
Net Nonoperating Revenues (Expenses)	(30,633)	(36,310)
Change in Net Position	$ 683,492	$ 22,322

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