EAST PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2023 and 2022

EAST PENDLETON COUNTY WATER DISTRICT

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EAST PENDLETON COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2023 and 2022

Bill Flaugher, Chairman

David Pribble, Treasurer

Lisa Cobb, Secretary

Of Counsel

William J. Verax IV
Attorney

Administration

Wayne Lonaker, General Manager

Independent Auditor's Report

To the Board of Commissioners
East Pendleton County Water District
Falmouth, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the East Pendleton County Water District (District), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the East Pendleton County Water District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the East Pendleton County Water District as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with accounting standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the East Pendleton County Water District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the East Pendleton County Water District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the East Pendleton County Water District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and *Multiple Employer, Cost Sharing, Defined Benefit Pension and OPEB* disclosures be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Pendleton County Water District's basic financial statements. The accompanying Schedules of Operations, Maintenance, and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 accompanying Schedules of Operations, Maintenance, and Administrative Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

This financial statements of the business-type activities of the District as of December 31, 2023 are displayed in comparative format with the financial statements as of December 31, 2022, which were audited by other auditors whose report dated March 27, 2023, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2024, on our consideration of the East Pendleton County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the East Pendleton County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Pendleton County Water District's internal control over financial reporting and compliance.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.
Certified Public Accountants
Erlanger, Kentucky
May 21, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2023. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by $3,991,974 (net position). This was an increase of $377,734. This increase is due to an increase in the water revenues and a slight decrease in the operating expenses. In addition, the District received some extra funding from a couple of grants.

- At the end of the current year, unrestricted net position was $186,460.

USING THIS ANNUAL REPORT

The financial statements presented herein include all the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

The Statements of Net Position and Revenues, Expenses and Changes in Net Position

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of providing potable water to those customers.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2023, 2022 and 2021:

Table 1
Net Position

	2023	2022	2021
Current assets	$ 911,775	$ 707,355	$ 837,091
Restricted assets	743,605	713,350	924,072
Capital assets, net	3,886,567	3,962,056	3,695,938
Deferred outflows of resources - pension & OPEB contribution	168,173	180,385	251,423
Total Assets and Deferred Outflows of Resources	5,710,120	5,563,146	5,708,524
Current liabilities	53,932	110,119	47,807
Liabilities payable from restricted assets	135,048	129,196	138,153
Long-term liabilities	1,115,240	1,510,335	1,836,175
Deferred inflows of resources - pension & OPEB	413,926	199,256	248,370
Total Liabilities and Deferred Inflows of Resources	1,718,146	1,948,906	2,270,505
Net Position:			
Net investment in capital assets	3,450,710	3,443,404	2,865,101
Restricted	354,804	325,755	537,240
Unrestricted	186,460	(154,919)	35,678
Total Net Position	$ 3,991,974	$ 3,614,240	$ 3,438,019

The District's net position for 2023 increased 10.5% or $377,734. This increase is due mainly to an increase in water revenue along with a decrease in operating expenses.

The largest portion of the District's net position (86.4%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (8.9%) is restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

Table 2 compares the revenues and expenses for the current year and the previous two years.

Table 2
Changes in Net Position

	2023	2022	2021
Operating revenues:			
Water sales	$ 1,357,815	$ 1,277,419	$ 1,237,946
Sewer sales	22,111	20,363	20,019
Forfeited discounts	20,138	20,568	14,976
Miscellaneous services revenues	8,927	15,308	10,235
Total operating revenues	1,408,991	1,333,658	1,283,176
Operating expenses:			
Water purchased	249,929	249,906	235,514
Operation and maintenance expense	761,068	762,489	760,544
Sewer expenses	17,268	15,809	15,612
Depreciation	150,835	155,649	138,773
Total operating expenses	1,179,100	1,183,853	1,150,443
Net operating profit	229,891	149,805	132,733
Non-operating income (expenses)			
Investment income	7,222	689	1,955
Gain (loss) disposal of assets	-	17,698	-
Net effect on change in pension expense	80,203	1,847	-
Interest on long-term debt	(14,366)	(19,995)	(28,309)
Net non-operating expenses	73,059	239	(26,354)
Income (loss) before capital contributions	302,950	150,044	106,379
Capital contributions and grants	86,008	26,177	21,841
Change in net position	388,958	176,221	128,220
Net position, January 1	3,614,240	3,438,019	3,309,799
Prior period change	(11,224)	-	-
Net position, December 31	$ 3,991,974	$ 3,614,240	$ 3,438,019

SUMMARY OF CHANGES IN NET POSITION

Revenues
Operating revenues increased $75,333 or 5.65% from 2022 to 2023. This is primarily due to the difference in water consumption between the two years and the addition of new customers.

Operation and Maintenance Expense
Operation and maintenance expense decreased $1,421 or 0.2% from 2022 to 2023.

Net Effect on Change in Pension and OPEB Expense
In recording the District's proportionate share of the unfunded pension and OPEB liability (asset) and the related deferred inflows and outflows, the District calculates the annual (expense) gain related to this unfunded net liability. During 2023 the net change created a pension benefit of $80,203 compared to a pension benefit of $1,847 reported in 2022.

Capital Contributions
Capital contributions increased $59,831 or 228.56% from 2022 to 2023. The District received new funding from several grants, which exceeded the decrease in tap on fees of 20 new customers along existing lines during 2023 in comparison to 36 new customers during 2022.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2023, the District had $3,886,567 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of $75,489. During 2023, depreciation expense for the year exceeded the cost of new equipment and the construction cost of a small line extension project.

Table 3 Summarizes the District's capital assets at December 31, 2023, 2022 and 2021.

Table 3
Capital Assets at Year End

	2023	2022	2021
Capital assets not depreciated:			
Construction in progress	$ 75,342	$ -	$ -
Organizational costs	7,200	7,200	7,200
Water land	16,157	16,157	16,157
Sewer land	1,168	1,168	1,168
Subtotal	99,867	24,525	24,525
Capital assets being depreciated:			
Water property and equipment	7,951,878	7,951,878	7,593,250
Sewer property and equipment	37,183	37,183	37,183
Subtotal	7,989,061	7,989,061	7,630,433
Accumulated depreciation	(4,202,361)	(4,051,530)	(3,959,020)
Capital Assets, net	$ 3,886,567	$ 3,962,056	$ 3,695,938

Debt Outstanding

Table 4 illustrates the District's outstanding debt at December 31, 2023, 2022, and 2021.

	2023	2022	2021
Bond payable obligations	$ 345,000	$ 420,000	$ 724,600
Note payable obligations	90,857	98,652	106,237
Total	$ 435,857	$ 518,652	$ 830,837

At year-end, the District had $435,857 in outstanding debt compared to $518,652 last year. This is a decrease of $82,795. Scheduled principal payments for 2024 are $83,010.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2024 projects an increase in net position, but one that will be much lower than what was experienced in the 2023 calendar year. This is primarily due to a decrease in operating revenues in the coming year. This decrease is due in part to the loss of a large commercial customer. The District is expecting to complete the Wagner Ferry Project at a cost of more than $900,000. A large portion of this project will be covered by grant income.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 601 Woodson Road, Falmouth, Kentucky 41040.

Wayne Lonaker

Wayne Lonaker, General Manager
East Pendleton County Water District

EAST PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents	$ 699,526	$ 581,469
Accounts receivable	149,735	95,022
Inventories	48,789	30,864
Prepaids	13,725	-
Total Current Assets	911,775	707,355
Restricted Assets		
Cash - construction	337,813	337,644
Depreciation reserve	53,133	53,107
Bond sinking fund	177,236	148,473
Certificates of deposits	124,433	124,175
Customer deposits	50,990	49,951
Total Restricted Assets	743,605	713,350
Capital Assets		
Construction in progress	75,342	-
Property, plant and equipment - Water	7,975,236	7,975,232
Less: accumulated depreciation - Water	(4,168,571)	(4,018,577)
Property, plant and equipment - Sewer	38,351	38,351
Less: accumulated depreciation - Sewer	(33,791)	(32,950)
Total Capital Assets, net of depreciation	3,886,567	3,962,056
TOTAL ASSETS	5,541,947	5,382,761
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows related to pensions and OPEB	168,173	180,385
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 5,710,120	$ 5,563,146

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EAST PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION - Continued from page 10
December 31, 2023 and 2022

	2023	2022
LIABILITIES		
Current Liabilities		
Accounts payable	$ 26,554	$ 94,641
Accrued and withheld liabilities	27,378	15,478
Total Current Liabilities	53,932	110,119
Current Liabilities Payable From Restricted Assets		
Revenue bonds and lease obligations - current portion	83,010	77,795
Customer deposits	44,965	44,334
Accrued interest payable	7,073	7,067
Total Current Liabilities Payable From Restricted Assets	135,048	129,196
Long-Term Liabilities		
KIA notes payable, net of current portion	82,847	90,857
Bonds payable, net of current portion	270,000	350,000
Net unfunded pension and OPEB liability	762,393	1,069,478
Total Long-Term Liabilities	1,115,240	1,510,335
TOTAL LIABILITIES	1,304,220	1,749,650
DEFERRED INFLOW OF RESOURCES		
Defeasance on refunding	12,111	12,111
Deferred inflows related to pensions and OPEB	401,815	187,145
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	1,718,146	1,948,906
NET POSITION		
Net investment in capital assets	3,450,710	3,443,404
Restricted for debt service	177,237	148,473
Restricted for depreciation	177,567	177,282
Unrestricted	186,460	(154,919)
TOTAL NET POSITION	$ 3,991,974	$ 3,614,240

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

EAST PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ending December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Water revenue	$ 1,377,953	$ 1,297,987
Sewer revenue	22,111	20,363
Other service revenues	8,927	15,308
TOTAL OPERATING REVENUES	1,408,991	1,333,658
OPERATING EXPENSES		
Water purchased	249,929	249,906
Operations, maintenance, and administrative expenses	761,068	762,489
Sewer expenses	17,268	15,809
Depreciation	150,835	155,649
TOTAL OPERATING EXPENSES	1,179,100	1,183,853
OPERATING PROFIT	229,891	149,805
NON-OPERATING INCOME (EXPENSE)		
Investment income	7,222	689
Gain (loss) on disposal of assets	-	17,698
Net effect of change in pension expense	80,203	1,847
Interest on long-term obligations	(14,366)	(19,995)
NET NON-OPERATING INCOME (EXPENSES)	73,059	239
NET GAIN	302,950	150,044
CAPITAL GRANTS AND CONTRIBUTIONS	86,008	26,177
CHANGE IN NET POSITION	388,958	176,221
NET POSITION, JANUARY 1	3,614,240	3,438,019
Prior period adjustment	(11,224)	-
NET POSITION, DECEMBER 31	$ 3,991,974	$ 3,614,240

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

EAST PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ending December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	$ 1,343,054	$ 1,328,729
Paid to suppliers for goods and services	(547,839)	(545,423)
Paid to or on behalf of employees for services	(568,263)	(487,165)
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	226,952	296,141
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	6,959	125
NET CHANGE IN CASH FROM INVESTING ACTIVITIES	6,959	125
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long term debt	(82,794)	(312,184)
Interest paid on long term debt	(14,360)	(19,425)
Contributed capital received	86,008	26,177
Acquisition and construction of capital assets	(75,342)	(355,425)
Proceeds from sale of capital assets	-	17,698
Increase in customer deposits	631	589
NET CHANGE IN CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(85,857)	(642,570)
CHANGE IN CASH AND CASH EQUIVALENTS	148,054	(346,304)
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	1,170,644	1,516,948
CASH AND CASH EQUIVALENTS-END OF YEAR	$ 1,318,698	$ 1,170,644
RECONCILIATION OF OPERATING INCOME TO NET CHANGE IN CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	$ 229,891	$ 149,805
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	150,835	155,649
Change in operating assets and liabilities		
Decrease (Increase) in receivables	(65,937)	(4,929)
Decrease (Increase) in inventories	(17,925)	(353)
Decrease (Increase) in prepaid assets	(13,725)	-
Increase (Decrease) in accounts payable	(68,087)	(777)
Increase (Decrease) in other accrued liabilities	11,900	(3,254)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 226,952	$ 296,141
SUPPLEMENTAL INFORMATION		
Interest expensed	$ (14,366)	$ (19,995)
Components of cash on the Statement of Net Position		
Cash and cash equivalents	$ 699,526	$ 581,469
Cash - construction	337,813	337,644
Restricted Cash	281,359	251,531
	$ 1,318,698	$ 1,170,644

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

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The East Pendleton County Water District (District) is a water utility, which provides service to residential and commercial customers in Pendleton County, Kentucky. The District was created by the Pendleton County Fiscal Court under the provisions of chapter 74 of the Kentucky Revised Statutes ("KRS") in 1965. The District's current service area includes parts of Pendleton, Campbell, Bracken, and Harrison Counties.

Regulatory Requirements
The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Basis of Accounting
The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments in the United States of America.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, 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 statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

Cash Equivalents
For purposes of the statements of net position and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets
In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government's website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

Inventories
Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to future periods, and therefore deferred until that time. A deferred loss on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. The District also recognizes deferred outflows of resources related to pensions and other postemployment benefits.

Deferred inflows of resources represent an acquisition of net assets that applies to future periods and is therefore deferred until that time. A deferred gain on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. The District also recognizes deferred inflows of resources related to pensions and other postemployment benefits.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the “Non-Operating Income (Expense)” portion of the Statements of Revenues, Expenses, and Changes in Net Position.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as “Construction in Progress”. When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District’s income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors.

During 2023 and 2022 these contributions consisted of the following:

Source	2023	2022
Tap in fees and construction costs paid by new customers	$ 14,958	$ 26,177
Capital grants	71,050	-
Total	$ 86,008	$ 26,177

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension (expense) gain, 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.

Postemployment Benefits Other Than Pensions (OPEB)
For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB (expense) gain, 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Income Tax Status
The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates
The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues
Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking accounts and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the statements of net position as "Cash and Cash Equivalents" and "Restricted Assets". The balances for "Cash and Cash Equivalents" were $699,526 and $581,469 at December 31, 2023 and 2022, respectively. The balances for "Restricted Assets" were $743,605 and $713,350 at December 31, 2023 and 2022, respectively. The District has amounts on deposit with one bank in excess of FDIC insured amounts. The bank has pledged collateral agreements to cover such excess amounts. At December 31, 2023, all amounts held on deposit by the District were sufficiently collateralized.

Investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2023 and 2022. The categories are described as follows:

Level 1 – Insured and registered, with securities held by the entity or its agent in the entity's name;

Level 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name;

Level 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

Investments' fair value measurements are as follows at December 31, 2023:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Operation and maintenance	$ 699,526	$ 699,526	$ -	$ -
Customer deposits	50,990	50,990	-	-
Debt payments	177,236	-	177,236	-
Current and replacement reserve	515,379	515,379	-	-
Total	$ 1,443,131	$ 1,265,895	$ 177,236	$ -

Investments' fair value measurements are as follows at December 31, 2022:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Operation and maintenance	$ 581,469	$ 581,469	$ -	$ -
Customer deposits	49,951	49,951	-	-
Debt payments	148,473	-	148,473	-
Current and replacement reserve	514,926	514,926	-	-
Total	$ 1,294,819	$ 1,146,346	$ 148,473	$ -

NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories. Included in the restricted portion of net position at December 31:

	2023	2022
Depreciation Reserve Fund	$ 177,567	$ 177,282
Bond Sinking Fund	177,237	148,473
Total Restricted Net Position	$ 354,804	$ 325,755

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment, including infrastructure assets, are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

The property, plant and equipment accounts are summarized as follows:

Asset Type	Balance at December 31, 2022	Additions	Retirements	Balance at December 31, 2023
Capital assets not depreciated:				
Construction in progress	$ -	$ 75,342	$ -	$ 75,342
Organizational costs	7,200	-	-	7,200
Water land	16,157	-	-	16,157
Sewer land	1,168	-	-	1,168
Totals	24,525	75,342	-	99,867
Capital assets being depreciated:				
Water property and equipment	7,951,878	-	-	7,951,878
Sewer property and equipment	37,183	-	-	37,183
Totals	7,989,061	-	-	7,989,061
Less: accumulated depreciation	(4,051,530)	(150,831)	-	(4,202,361)
Depreciable assets. Net	3,937,531	(150,831)	-	3,786,700
Total capital assets, net	$ 3,962,056	$ (75,489)	$ -	$ 3,886,567

NOTE 5 – LONG TERM DEBT

The following is a summary of the District's debt:

Debt Instrument	Balance at December 31, 2022	Additions	Retirements	Balance at December 31, 2023
Kentucky Infrastructure Authority Loan	$ 98,652	$ -	$ (7,795)	$ 90,857
Kentucky Rural Water Finance Corp.	420,000	-	(75,000)	345,000
Subtotal	518,652	$ -	$ (82,795)	435,857
Less: current portion of long-term debt	(77,795)			(83,010)
Total Long-Term Indebtedness	$ 440,857			$ 352,847

Kentucky Infrastructure Authority Loan
During the year ended December 31, 2014, the District partnered with the Kentucky Infrastructure Authority to fund construction of the water service lines. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.75% and matures December 1, 2033. The remaining debt service is as follows:

Year	Principal Amount	Interest Amount	Total Debt Service
2024	$ 8,010	$ 2,444	$ 10,454
2025	8,232	2,222	10,454
2026	8,460	1,994	10,454
2027	8,694	1,760	10,454
2028	8,935	1,519	10,454
2029-2033	48,526	3,744	52,270
Totals	$ 90,857	$ 13,683	$ 104,540

Kentucky Rural Water Finance Corporation
On February 19, 2015, The District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation for a loan in the amount of $895,000. Concurrent with this agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2015B which refunded the District's outstanding Series 1998 Bonds, Series 2001 Bonds and Series 2006 Bonds. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on February 1 beginning in 2016 and ending February 1, 2041. Interest is payable February 1 and August 1 of each year. The KRWFC bond bears a variable interest rate of 2.25-3.625%. The remaining debt service is as follows:

Year	Principal Amount	Interest Amount	Total Debt Service
2024	$ 75,000	$ 10,488	$ 85,488
2025	75,000	8,050	83,050
2026	10,000	6,669	16,669
2027	10,000	6,344	16,344
2028	10,000	6,019	16,019
2029-2033	50,000	25,214	75,214
2034-2038	75,000	14,616	89,616
2039-2041	40,000	2,438	42,438
Totals	$ 345,000	$ 79,838	$ 424,838

NOTE 6 - COUNTY EMPLOYEES' RETIREMENT SYSTEM

Plan description – District employees are covered by CERS (County Employees' Retirement System), a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Public Pension Authority, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statue ("KRS") Section 61.645, the Board of Trustees of the Kentucky Public Pension Authority administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Public Pension Authority issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from http://kyret.ky.gov/.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on ***Non-Hazardous*** duty and ***Hazardous*** duty covered-employee classifications. The District has only Non-Hazardous employees.

Membership in CERS consisted of the following at June 30, 2022:

	Non-Hazardous	
	Pension	OPEB
Active Plan Members	77,849	76,946
Inactive Plan Members	105,707	28,719
Retired Members	68,889	37,584
	252,445	143,249
Number of participating employers		1,144

PENSION PLAN

Non-Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old
		At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old
		or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old
		or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive health insurance benefits after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are $5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and $10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	5%
Tier 2	5%
Tier 3	5%

Contributions

The District contributed 26.79% of covered-employee's compensation (from January – June 2023) of which 23.40% was for the pension fund and 3.39% was for the health insurance fund and contributed 23.34% of covered-employee's compensation (from July – December 2023), of which 23.34% was for the pension fund and 0.00% was for the health insurance fund.

The District made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of $90,340, of which $84,315 was for the pension fund and $6,025 was for the health insurance fund.

Pension Liabilities (Asset), Pension (Expense) Gain, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At December 31, 2023, the District reported a liability (asset) of $779,157 as its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2023, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The District 's proportion of the net pension liability (asset) was based on a projection of the District 's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At the June 30, 2023 measurement year, the District 's non-hazardous employer allocation proportion was 0.01214% of the total CERS non-hazardous duty employees. For the year ended December 31, 2023, the District recognized a pension gain of $49,191 in addition to its $84,315 pension contribution.

At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	$ 40,335	$ (2,117)
Net difference between projected actual earnings on plan investments	-	(10,628)
Changes of assumptions	-	(71,410)
Changes in proportion and differences between contributions and proportionate share of contributions	23,746	(33,989)
Contributions subsequent to the measurement date	42,729	-
	$ 106,810	$ (118,144)

The District's contributions subsequent to the measurement date of $42,729 will be recognized as a reduction of the net pension liability (asset) in the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension (expense) gain as follows:

Measurement Year Ending June 30,	Net Deferral
2024	$ (45,082)
2025	(18,832)
2026	17,394
2027	(7,543)
2028	-
Thereafter	-
	$ (54,063)

Actuarial Methods and Assumptions for Determining the Net Pension Liability (Asset)

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

Changes of Assumptions

The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023 and include a change in the investment return assumption from 6.25% to 6.50%. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022." The Total Pension Liability (asset) as of June 30, 2023, is determined using these updated assumptions.

House Bill 506 passed during the 2023 legislative session and reinstated the Partial Lump Sum Option form of payment for members who retire on and after January 1, 2024, with the lump-sum options expanded to include 48 or 60 times the member's monthly retirement allowance. Since this optional form of payment results in a reduced, actuarial equivalent, monthly retirement allowance for members who elect a partial lump-sum option, this provision does not have a fiscal impact to the total pension liability (asset).

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

Similarly, this is a relatively small change for future retirees in the nonhazardous plans. But as the minimum separation period was previously three months in almost every circumstance, GRS assumed that there would be a one percent (1%) increase in the rate of retirement for each of the first two years a nonhazardous member becomes retirement eligible under the age of 65 in order to reflect a shift in the retirement pattern. The total pension liability (asset) as of June 30, 2023, for the nonhazardous plans in determined using these updated benefits provisions.

There have been no other plan provision changes that would materially impact the total pension liability since June 30, 2022. It is GRS's opinion that these procedures for determining the information contained in this report are reasonable, appropriate, and comply with applicable requirements under *GASB No. 68*.

The actuarial assumptions are:

Inflation	2.50%
Payroll Growth Rate	2.0% for CERS Nonhazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS Nonhazardous
Investment Rate of Return	6.50% for CERS Nonhazardous

The mortality table used for active members was a Pub-2010 General Mortality table, for the Nonhazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

Discount Rate

The projection of cash flows used to determine the discount rate of 6.50% for CERS Non-hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute, as amended by House Bill 362, (passed in 2018) over the remaining 28 years (closed) amortization period of the unfunded actuarial accrued liability (asset).

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contributions for Fiscal Year 2023

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

Valuation Date	June 30, 2021
Experience Study	July 1, 2018 to June 30, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 years closed period at June 30, 2019; gains and losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll Growth Rate	2.0%
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 Increases	3.30% to 10.30%, varies by service for Non-Hazardous
Investment Rate of Return	6.25%
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

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.

Plan Target Allocation

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

Asset Class	CERS Pensions Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Public equity	50.00%	5.90%
Private equity	10.00%	11.73%
Core bonds	10.00%	2.45%
Specialty credit / high yield	10.00%	3.65%
Cash	0.00%	1.39%
Real estate	7.00%	4.99%
Real return	13.00%	5.15%
Expected Real Return	100.00%	5.75%
Long-Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		8.25%

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

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

	Proportionate Share of Net Pension Liability		
	1% Decrease 5.50%	Current Rate 6.50%	1% Increase 7.50%
Non-hazardous	$ 983,732	$ 779,157	$ 609,147
Total	$ 983,732	$ 779,157	$ 609,147

<u>HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS</u>

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was $12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was $12.99 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KPPA Trustees. The District contributed 3.39% of covered-employee's compensation (from January – June 2023) and contributed 0.00% of covered-employee's compensation (from July – December 2023) for the health insurance fund. These contributions are actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability (asset). For the year ended December 31, 2023, the District recognized OPEB gain of $42,623 in addition to its $6,025 OPEB contribution.

OPEB Liabilities (Asset), OPEB (Expense) Gain, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2023, the District reported an asset of $16,764 as its proportionate share of the net OPEB liability (asset). The net OPEB liability (asset) was measured as of June 30, 2023, and the total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The District 's proportion of the net OPEB liability (asset) was based on a projection of the District 's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At the June 30, 2023 measurement year, the District's proportion of the total non-hazardous plan was 0.01214%.

In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	$ 11,687	$ (238,033)
Net difference between projected actual earnings on plan investments	-	(3,891)
Changes of assumptions	32,990	(22,991)
Changes in proportion and differences between contributions and proportionate share of contributions	16,686	(18,756)
Contributions subsequent to the measurement date	-	-
	$ 61,363	$ (283,671)

The District's contributions subsequent to the measurement date, $0 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability (asset) in the year ending December 31, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB (expense) gain as follows:

Measurement Year Ending June 30,	Net Deferral
2024	$ (53,195)
2025	(69,334)
2026	(55,670)
2027	(44,109)
2028	-
Thereafter	-
	$ (222,308)

Actuarial Methods and Assumptions to Determine the Net OPEB Liability (Asset)

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

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2023:

Inflation	2.50%
Payroll Growth Rate	2.0% for CERS Nonhazardous
Salary Increase	3.30% to 10.30%, varies by service for CERS Nonhazardous
Initial Rate of Return	
Health Care Trend Rates	
Pre-65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 8.50% in 2025, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Nonhazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.
Post-retirement (nondisabled)	System-specific mortality table based on mortality experience from 2013-2022 projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year 2010.

The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023. These assumptions are documented in the report titled "2022 Actuarial Experiences Study for the Period Ending June 30, 2022". Additionally, the single discount rates used to calculate the total OPEB liability (asset) within each plan changed since the prior year. Additional information regarding the single discount rates is provided below. The Total OPEB Liability (asset) as of June 30, 2023, is determined using these updated assumptions.

House Bill 506 passed during the 2023 legislative session reinstated the Partial Lump Sum Option form of payment for members who retire on and after January 1, 2024 and adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances.

This is a minimal change for members in the hazardous plans, as the minimum separation period was already one month for members who became reemployed on a full-time basis in a hazardous position. The requirement was previously three months only for members who became reemployed on a part-time basis in any nonhazardous position. GRS believes this provision of House Bill 506 will have an insignificant impact on the retirement pattern of hazardous members and therefore have reflected no fiscal impact to the total OPEB liability (asset) of the hazardous plan.

Similarly, this is a relatively small change for future retirees in the nonhazardous plan. But as the minimum separation period was previously three months in almost every circumstance, GRS assumed that there would be a one percent (1%) increase in the rate of retirement for each of the first two years a nonhazardous member becomes retirement eligible under the age of 65, in order to reflect a shift in the retirement pattern. The total OPEB liability (asset) as of June 30, 2023, for the nonhazardous plan is determined using these updated benefit provisions.

There have been no other plan provision changes that would materially impact the total OPEB liability (asset) since June 30, 2022. It is GRS's opinion that these procedures are reasonable and appropriate and comply with applicable requirements under GASB Statement No. 75.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for Fiscal Year 2023

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

Valuation Date	June 30, 2021
Experience Study	July 1, 2018 to June 30, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 years closed period at June 30, 2019; gains and losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll Growth Rate	2.0%
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 Increases	3.30% to 10.30%, varies by service for Non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were included into the liability measurement.
Post - 65	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were included into the liability (asset) measurement.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Nonhazardous Systems, and the PUB2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

Post-retirement (non- disabled)	System-specific mortality table based on mortality experience 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

The single discount rates used to calculate the total OPEB liability (asset) within each plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021, valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material assumption changes.

Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003, by $5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable on January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA.

The total OPEB liability (asset) as of June 30, 2023, is determined using these updated benefit provisions. There were no other material plan provision changes.

Changes of Assumptions

The discount rates used to calculate the total OPEB liability (asset) increased from 5.70% to 5.93%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2023 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. There were no other material assumption changes.

Discount Rate

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

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

Plan Target Allocation

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

Asset Class	CERS Pensions Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Public equity	50.00%	5.90%
Private equity	10.00%	11.73%
Core bonds	10.00%	2.45%
Specialty credit /high yield	10.00%	3.65%
Cash	0.00%	1.39%
Real estate	7.00%	4.99%
Real return	13.00%	5.15%
Expected Real Return	100.00%	5.75%
Long-Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		8.25%

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

The following presents the proportionate share of the net OPEB liability (asset) calculated using the discount rates of 5.70% for the non-hazardous plan, as well as what the proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability (Asset)		
	1.00% Decrease	Current Rate	1.00% Increase
Discount Rate, Non-Hazardous	4.93%	5.93%	6.93%
Net OPEB liability (Asset), Non-Haz	$ 31,460	$ (16,764)	$ (57,146)
Total	$ 31,460	$ (16,764)	$ (57,146)

Sensitivity of the Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates

The following presents the proportionate share of the net OPEB liability (asset), as well as what the proportionate share of the net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate Share of Net OPEB Liability (Asset)		
Healthcare cost trend rate	1.00% Decrease	Current Rate	1.00% Increase
Net OPEB liability (Asset), non-hazardous	$ (53,732)	$ (16,764)	$ 28,647
Total	$ (53,732)	$ (16,764)	$ 28,647

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial reports that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the Kentucky Public Pension Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601 or online at www.kyret.ky.gov.

NOTE 7 – ECONOMIC DEPENDENCY/CREDIT RISK

Pendleton County Water District is a government agency operating with one office in Falmouth, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Pendleton, Campbell, Bracken, and Harrison Counties.

NOTE 8 – CONCENTRATIONS

The District has agreements to purchase water from the City of Falmouth, Kentucky and the Bracken County Water District.

NOTE 9 – PRIOR PERIOD ADJSUTMENT

The District recognized a reduction of $11,224 in fund balance on the statement of activities to account for a change to the beginning Accounts Receivable balance.

NOTE 10 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS IN CURRENT YEAR

Statement No. 91 – *Conduit Debt Obligations*

Statement No. 99 – *Omnibus 2022*

The implementation of these standards had no significant effect on the District during this calendar year.

NOTE 11 – FUTURE ACCOUNTING STANDARDS

Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62* – Implementation in calendar year 2024

Statement No. 101 – *Compensated Absences* – Implementation in calendar year 2024

Statement No. 102 – *Certain Risk Disclosures* – Implementation in calendar year 2025

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated events through May 21, 2024, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2022 through May 21, 2024, to disclose.

EAST PENDLETON COUNTY WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE-NON-HAZARDOUS
Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of net pension liability (asset)	0.012140%	0.011622%	0.013196%	0.012490%	0.012199%	0.011313%	0.011109%	0.009370%	0.012205%	0.012943%
Proportionate share of the net pension liability (asset)	$ 779,157	$ 840,156	$ 841,349	$ 957,973	$ 857,961	$ 688,996	$ 650,244	$ 461,342	$ 524,772	$ 420,000
Covered payroll in year of measurement	$ 340,992	$ 321,372	$ 337,069	$ 319,921	$ 307,718	$ 280,393	$ 270,478	$ 209,696	$ 271,260	$ 296,939
Share of the net pension liability (asset) as a percentage of its covered payroll	228.50%	261.43%	249.61%	299.44%	278.81%	245.73%	240.41%	220.01%	193.46%	139.36%
Plan fiduciary net position as a percentage of total pension liability (asset)	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

Schedule of the District's Contributions
County Employees' Retirement System (CERS)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 84,315	$ 75,476	$ 70,819	$ 63,893	$ 56,072	$ 44,288	$ 41,414	$ 27,596	$ 30,001	$ 40,040
Actual contribution	$ 84,315	$ 75,476	$ 70,819	$ 63,893	$ 56,072	$ 44,288	$ 41,414	$ 27,596	$ 30,001	$ 40,040
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered payroll	$ 360,791	$ 326,542	$ 336,182	$ 331,052	$ 315,253	$ 287,497	$ 292,976	$ 210,496	$ 239,531	$ 301,368
Contributions as a percentage of covered payroll	23.37%	23.11%	21.07%	19.30%	17.79%	15.40%	14.14%	13.11%	12.52%	13.29%

Notes to Required Supplementary Information
for the Year Ended December 31, 2023

The net pension liability (asset) as of December 31, 2023, is based on the June 30, 2023, actuarial valuation. The changes to the elements of the pension (expense) gain, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 6 in the Notes to the Financial Statements.

EAST PENDLETON COUNTY WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE-NON-HAZARDOUS
Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of net OPEB liability (aaset)	0.012140%	0.011620%	0.01319%	0.012486%	0.01220%	0.01131%	0.01111%	0.01111%		
Proportionate share of the net OPEB liability (asset)	$ (16,764)	$ 229,322	$ 252,573	$ 301,499	$ 205,131	$ 200,860	$ 223,329	$ 175,173		
Covered payroll in year of measurement	$ 340,992	$ 321,372	$ 337,069	$ 319,921	$ 307,718	$ 280,393	$ 270,478	$ 209,696		
Share of the net pension liability (asset) as a percentage of its covered payroll	-4.92%	71.36%	74.93%	94.24%	66.66%	71.64%	82.57%	83.54%		
Plan fiduciary net position as a percentage of total OPEB liability (asset)	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%	52.39%			

Schedule of the District's Contributions
County Employees' Retirement System (CERS)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 6,025	$ 12,246	$ 14,996	$ 15,758	$ 15,781	$ 14,368	$ 14,042	$ 10,310	$ 11,577	$ 15,008
Actual contribution	$ 6,025	$ 12,246	$ 14,996	$ 15,758	$ 15,781	$ 14,368	$ 14,042	$ 10,310	$ 11,577	$ 15,008
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered payroll	$ 360,791	$ 326,542	$ 336,182	$ 331,052	$ 315,253	$ 287,497	$ 292,976	$ 210,496	$ 239,531	$ 301,368
Contributions as a percentage of covered payroll	1.67%	3.75%	4.46%	4.76%	5.01%	5.00%	4.79%	4.90%	4.83%	4.98%

Notes to Required Supplementary Information
for the Year Ended December 31, 2023

The net pension liability (asset) as of December 31, 2023, is based on the June 30, 2023, actuarial valuation. The changes to the elements of the OPEB (expense) gain, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 6 in the Notes to the Financial Statements.

EAST PENDLETON COUNTY WATER DISTRICT
SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES
For the Years Ending December 31, 2023 and 2022

	2023	2022
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	$ 481,325	$ 476,916
Employee pension and benefits	84,438	78,056
Commissioners' fees	14,400	14,116
Contractual services - other	32,626	32,482
Insurance - general and vehicle	9,717	17,354
Insurance - workers' compensation	3,623	6,068
Materials and supplies	46,263	49,476
Miscellaneous	7,181	6,606
Purchased power	47,386	44,644
Regulatory commission	1,746	1,873
Taxes	42	17
Transportation	22,240	24,001
Utilities	10,081	10,880
Total Operations, Maintenance and Administrative Expenses	$ 761,068	$ 762,489

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners
East Pendleton County Water District
Falmouth, 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 East Pendleton County Water District as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements which collectively comprise East Pendleton County Water District's basic financial statements and have issued our report thereon dated May 21, 2024.

Internal Control over Financial Reporting

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

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

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

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Chamberlin Owen
Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the East Pendleton County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. Noncompliance 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 audits, 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.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.
Erlanger, Kentucky
May 21, 2024