Laurel County Water District No. 2
London, Kentucky
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Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2024 and 2023

Laurel County Water District No. 2

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Abner & Cox, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Commissioners
Laurel County Water District No. 2
London, Kentucky

Opinion

We have audited the accompanying financial statements of Laurel County Water District No. 2, (the District) which comprise the statements of net position as of December 31, 2024 and 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laurel County Water District No. 2, as of December 31, 2024 and 2023, 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 Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Laurel County Water District No. 2 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Laurel County Water District No. 2's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion,

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forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government 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 Laurel County Water District No. 2'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 Laurel County Water District No. 2'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 Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of the District's Proportionate Share of the Net OPEB Liability, the Schedule of the District's Pension Contributions, and the Schedule of the District's OPEB Contributions on pages 33-36 be presented to supplement the basic financial statements. Such 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, 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2024, on our consideration of Laurel County Water District No. 2'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 Laurel County Water District No. 2's internal control over financial reporting and compliance.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

June 27, 2025

Laurel County Water District No. 2
Statements of Net Position
December 31, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	$ 1,896,229	$ 2,383,095
Receivables, less allowance	280,074	306,895
Unbilled accounts receivable	164,470	198,590
Grant receivable	267,211	-
Inventories	134,795	168,012
Prepaid expenses	32,537	28,083
Other current assets	2,580	432
Total Current Assets	2,777,896	3,085,107
Noncurrent Assets		
Restricted Assets		
Customer deposits	149,816	136,959
Grant monies	37,356	36,073
Depreciation reserves - cash	412,676	396,360
Depreciation reserves - certificates of deposit	125,100	125,100
Bond and interest funds	402,853	371,971
Total Restricted Assets	1,127,801	1,066,463
Capital Assets, Net of Depreciation	21,182,731	20,868,541
Total Noncurrent Assets	22,310,532	21,935,004
Total Assets	25,088,428	25,020,111
Deferred Outflows of Resources		
Bond issuance costs, net of amortization	146,227	152,076
Differences between expected and actual experience related to pensions	94,354	103,803
Changes of assumptions related to OPEB	51,077	84,905
Changes in proportion and differences between employer pension contributions and proprtionate share of contributions	75,685	75,168
Differences between expected and actual experience related to OPEB	31,273	30,078
Changes in proportion and differences between employer OPEB contributions and proprtionate share of contributions	34,432	31,564
Pension contributions subsequent to measurement date	103,869	112,293
Total Deferred Outflows of Resources	536,917	589,887

Laurel County Water District No. 2
Statements of Net Position (Continued)
December 31, 2024 and 2023

	2024	2023
Liabilities		
Current Liabilities		
Accounts payable	69,474	61,392
Accounts payable - construction	277,448	65,466
Accrued interest payable	66,363	69,050
Accrued salaries and taxes payable	38,915	34,130
Current portion of notes payable and long-term debt	298,134	290,271
Other current liabilities	96,023	92,131
Total Current Liabilities	846,357	612,440
Noncurrent Liabilities		
Customer deposits	136,485	126,430
Net pension liability	1,949,379	2,005,159
Net OPEB liability (asset)	(56,369)	(43,144)
Bond premium	189,280	196,851
Notes payable and long-term debt, less current portion	10,632,283	10,930,417
Total Noncurrent Liabilities	12,851,058	13,215,713
Total Liabilities	13,697,415	13,828,153
Deferred Inflows of Resources		
Differences between expected and actual experience related to pensions	-	5,449
Differences between expected and actual experience related to OPEB	443,513	612,608
Net differences between projected and actual earnings on pension plan investments	125,334	27,351
Net differences between projected and actual earnings on OPEB plan investments	51,440	10,013
Changes of assumptions related to pensions	88,074	183,774
Changes of assumptions related to OPEB	39,774	59,170
Changes in proportion and differences between employer contributions and proportionate share of pension contributions	-	980
Changes in proportion and differences between employer contributions and proportionate share of OPEB contributions	2,959	8,826
Total Deferred Inflows of Resources	751,094	908,171
Net Position		
Net investment in capital assets	9,974,866	9,647,853
Restricted	1,127,801	1,066,463
Unrestricted	74,169	159,358
Total Net Position	$ 11,176,836	$ 10,873,674

Laurel County Water District No. 2
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2024 and 2023

	2024	2023
Operating Revenues		
Water sales	$ 3,108,985	$ 3,164,358
Service charges	77,417	74,463
Tap fees	56,647	81,567
Penalties	57,366	56,625
Other revenues	13,725	17,627
Total Operating Revenues	3,314,140	3,394,640
Operating Expenses		
Salaries and wages	1,147,626	1,018,659
Employee benefits	495,362	487,096
Purchased power	183,547	183,435
Utilities	23,433	22,992
Chemicals	100,111	87,584
Materials and supplies	163,783	109,613
Contracted services	83,791	64,546
Vehicle and equipment expenses	63,233	47,568
Insurance	34,657	30,301
Bad debt expense, net of recoveries	22,370	21,902
Depreciation	682,966	662,422
Amortization	5,849	5,849
Other operating expenses	123,546	115,360
Total Operating Expenses	3,130,274	2,857,327
Operating Income	183,866	537,313
Non-operating Revenues (Expenses)		
Interest income	121,752	38,569
Grant revenue	267,211	498,335
Rental income	16,331	14,750
Gain (loss) on disposition of equipment	(1,084)	-
Interest expense	(284,914)	(293,538)
Total Non-operating Revenues (Expenses)	119,296	258,116
Change in Net Position	303,162	795,429
Beginning Net Position	10,873,674	10,078,245
Net Position, End of Year	$ 11,176,836	$ 10,873,674

See accompanying notes to financial statements.

Laurel County Water District No. 2
Statements of Cash Flows
For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows From Operating Activities		
Receipts from customers	$ 3,371,411	$ 3,381,719
Receipts from other activities	13,725	17,627
Payments to employees	(1,847,106)	(1,607,760)
Payments to suppliers	(613,966)	(610,417)
Payments for other activities	(123,546)	(115,360)
Net Cash Provided by Operating Activities	800,518	1,065,809
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(795,562)	(1,124,321)
Proceeds from sales of property, plant and equipment	9,304	-
Principal payments on debt	(290,270)	(277,913)
Interest payments on debt	(287,601)	(296,044)
Federal and state grants	-	498,335
Other receipts	16,331	14,750
Net Cash Used by Capital and Related Financing Activities	(1,347,798)	(1,185,193)
Cash Flows From Investing Activities		
Interest on certificates of deposits	121,752	38,569
Net Cash Provided by Investing Activities	121,752	38,569
Net Increase (Decrease) in Cash and Cash Equivalents	(425,528)	(80,815)
Cash and Cash Equivalents at Beginning of Year	3,324,458	3,405,273
Cash and Cash Equivalents at End of Year	$ 2,898,930	$ 3,324,458

Reconciliation of cash per Statements of Net Position to cash per Statements of Cash Flows:		
Cash and cash equivalents	$ 1,896,229	$ 2,383,095
Restricted cash and cash equivalents:		
Customer deposits	149,816	136,959
Grant monies	37,356	36,073
Depreciation reserves-cash	412,676	396,360
Bond and interest funds	402,853	371,971
Cash and Equivalents per Statements of Cash Flows	$ 2,898,930	$ 3,324,458

See accompanying notes to financial statements.

Laurel County Water District No. 2
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2024 and 2023

	2024	2023
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 183,866	$ 537,313
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	688,815	662,422
(Increase) decrease in operating assets		
Accounts receivable	60,941	5,939
Inventory	33,217	(60,977)
Prepaid expenses and other current assets	(6,602)	(3,263)
Deferred pension & OPEB ouflows	(82,297)	119,389
Increase (decrease) in operating liabilities		
Accounts payable	(8,082)	82,053
Accrued expenses and other current liabilities	8,677	4,491
Customer deposits	10,055	10,645
Deferred pension & OPEB inflows	(157,077)	502,905
Net pension & OPEB liabilities	69,005	(795,108)
Net Cash Provided by Operating Activities	$ 800,518	$ 1,065,809

See accompanying notes to financial statements.

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Laurel County Water District No. 2, of Laurel County, Kentucky ("District") was created in 1963 under Chapter 74 of the Kentucky Revised Statutes. The District is governed by a five-person Board of Commissioners appointed by the Laurel County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

Laurel County Water District No. 2's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. There are no other entities that are subject to the District's oversight responsibility as indicated above.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The District applies all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the District as a whole. These statements include all funds of the District. The statements distinguish between governmental and business-type activities. The District does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The District considers demand deposits and certificates of deposits with maturities of 90 days or less to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Expenses

Inventories consist of expendable supplies held for consumption stated on a weighted average cost basis. They are reported at cost and are recorded as an expenditure at the time individual items are used. Prepaid expenses include payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

The District's property, plant and equipment with useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Asset Classification	Range of Lives
Structures and improvements	35-40 years
Transmission distribution mains	50-75 years
Plant equipment	20-60 years
Meters and services	30-60 years
Other equipment and vehicles	7-25 years

Accounts Receivable

Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed. Billing is completed monthly and accounts are considered past due on the sixteenth day after the end of each billing period. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 90 days. The balance of the allowance at December 31, 2024 and 2023 was $10,000.

Unbilled Accounts Receivable

Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year.

Net Position

Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

> Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District would typically use restricted assets first, but reserves the right to selectively spend unrestricted assets first.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions and OPEB

For purposes of measuring net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The plan's financial statements are prepared using the accrual basis of accounting and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) that apply to governmental accounting for fiduciary funds. Investments are reported at fair value.

Note 2 – Restricted Assets

Under the terms of all loan resolutions, the District is required to maintain certain accounts and funds for the benefit and protection of the creditors. In addition, the District is also required to collect reasonable and sufficient rates and charges for services rendered, prohibited from selling, leasing or mortgaging any part of the system without prior approval, required to maintain the operating system in good condition and to carry adequate insurance on all properties to protect against loss or damage.

The resolutions require the District to establish a depreciation fund or reserve to be used to finance the cost of unusual repairs, renewals and replacements not included in the annual budget and to pay for future system extensions. The balance of these accounts at December 31, 2024 and 2023 was $940,629 and $878,215, respectively. Restricted assets also include customer deposits of $149,816 and $136,959 held at December 31, 2024 and 2023, respectively, and grant monies of $37,356 and $36,073 held at December 31, 2024 and 2023, respectively.

Note 3 – Kentucky Revised Statute

At December 31, 2024 and 2023, all of the cash of the District was covered by federal depository insurance and securities pledged as collateral on behalf of the District. In accordance with Kentucky Revised Statute (KRS) 91A.060, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), financial institutions shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS 91A.060, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, interest bearing deposits of insured savings and loans, or interest bearing deposits of insured national or state banks. For additional cash descriptive information, see Note 1.

Note 4 – Concentrations of Credit Risks

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2024 and 2023, $1,115,324 and $3,120,008, respectively, of the District's total deposits at banks of $1,540,577 and $3,620,008, respectively, were exposed to custodial credit risk as follows:

	2024	2023
Uninsured and uncollateralized	$ -	$ -
Uninsured and collateral held by pledging bank	1,115,324	3,120,008
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	$ 1,115,324	$ 3,120,008

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2024:

	Balance Dec. 31, 2023	Additions	Dispositions	Balance Dec. 31, 2024
Land and improvements	$ 524,386	$ 3,064	$ -	$ 527,450
Building and improvements	710,803	28,488	1,161	738,130
Source of supply and pumping	3,760,562	32,460	-	3,793,022
Water treatment equipment	124,722	32,106	-	156,828
Transmission and distribution plant	24,598,941	610,646	-	25,209,587
Vehicles and other equipment	1,467,367	88,799	30,058	1,526,108
Construction in progress	65,466	277,447	65,466	277,447
Totals at historical cost	31,252,247	1,073,010	96,685	32,228,572
Less accumulated depreciation for:				
Land and improvements	16,675	1,614	-	18,289
Building and improvements	504,796	9,058	-	513,854
Source of supply and pumping	1,108,255	74,086	-	1,182,341
Water treatment equipment	114,423	2,624	-	117,047
Transmission and distribution plant	7,674,128	532,810	-	8,206,938
Vehicles and other equipment	965,429	62,775	20,832	1,007,372
Total accumulated depreciation	10,383,706	682,967	20,832	11,045,841
Capital assets - net	$ 20,868,541	$ 390,043	$ 75,853	$ 21,182,731

Note 5 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2023:

	Balance Dec. 31, 2022	Additions	Dispositions	Balance Dec. 31, 2023
Land and improvements	$ 518,384	$ 6,002	$ -	$ 524,386
Building and improvements	703,545	7,258	-	710,803
Source of supply and pumping	3,560,392	200,170	-	3,760,562
Water treatment equipment	124,722	-	-	124,722
Transmission and distribution plant	23,809,052	789,889	-	24,598,941
Vehicles and other equipment	1,411,831	55,536	-	1,467,367
Construction in progress	-	732,520	667,054	65,466
Totals at historical cost	30,127,926	1,791,375	667,054	31,252,247
Less accumulated depreciation for:				
Land and improvements	15,084	1,591	-	16,675
Building and improvements	496,270	8,526	-	504,796
Source of supply and pumping	1,036,767	71,488	-	1,108,255
Water treatment equipment	112,548	1,875	-	114,423
Transmission and distribution plant	7,161,081	513,047	-	7,674,128
Vehicles and other equipment	899,532	65,897	-	965,429
Total accumulated depreciation	9,721,282	662,424	-	10,383,706
Capital assets - net	$ 20,406,644	$ 1,128,951	$ 667,054	$ 20,868,541

Note 6 - Notes Payable and Long – Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2024:

	Balance Dec. 31, 2023	Additions	Payments	Balance Dec. 31, 2024	Due Within One Year
Loan payable to Kentucky Infrastructure Authority, principal and interest at the rate of 1.6%, payable on a semi-annual basis, with final payment due December 1, 2025.	$ 46,248	$ -	$ 18,278	$ 27,970	$ 18,572
Loan payable to Kentucky Infrastructure Authority, principal and interest at the rate of 0.5%, payable on a semi-annual basis, with final payment due December 1, 2049.	403,439	-	13,992	389,447	14,062
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2051. Interest payable on semi-annual basis at the rate of 3.00%.	1,906,500	-	45,000	1,861,500	46,500
Loan payable to Kentucky Rural Water Finance Corporation, payable annually in varying principal amounts, with final payment due January 1, 2051. Interest payable on semi-annual basis at the rate ranging from 2.00% to 4.00%.	5,540,000	-	150,000	5,390,000	155,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2058. Interest payable on semi-annual basis at the rate of 2.75%.	1,242,000	-	22,500	1,219,500	23,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2061. Interest payable on semi-annual basis at the rate of 1.75%.	331,500	-	6,500	325,000	6,500
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2061. Interest payable on semi-annual basis at the rate of 1.75%.	1,751,000	-	34,000	1,717,000	34,500
	$ 11,220,687	$ -	$ 290,270	$ 10,930,417	$ 298,134

Note 6 - Notes Payable and Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2023:

	Balance Dec. 31, 2022	Additions	Payments	Balance Dec. 31, 2023	Due Within One Year
Loan payable to Kentucky Infrastructure Authority, principal and interest at the rate of 1.6%, payable on a semi-annual basis, with final payment due December 1, 2025.	$ 64,238	$ -	$ 17,990	$ 46,248	$ 18,279
Loan payable to Kentucky Infrastructure Authority, principal and interest at the rate of 0.5%, payable on a semi-annual basis, with final payment due December 1, 2049.	417,362	-	13,923	403,439	13,992
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2051. Interest payable on semi-annual basis at the rate of 3.00%.	1,950,500	-	44,000	1,906,500	45,000
Loan payable to Kentucky Rural Water Finance Corporation, payable annually in varying principal amounts, with final payment due January 1, 2051. Interest payable on semi-annual basis at the rate ranging from 2.00% to 4.00%.	5,680,000	-	140,000	5,540,000	150,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2058. Interest payable on semi-annual basis at the rate of 2.75%.	1,264,000	-	22,000	1,242,000	22,500
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2061. Interest payable on semi-annual basis at the rate of 1.75%.	338,000	-	6,500	331,500	6,500
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2061. Interest payable on semi-annual basis at the rate of 1.75%.	1,784,500	-	33,500	1,751,000	34,000
	$ 11,498,600	$ -	$ 277,913	$ 11,220,687	$ 290,271

Note 6 – Notes Payable and Long-Term Debt (Continued)

All revenues from water sales are pledged as collateral on the loans payable to the Kentucky Infrastructure Authority.

The aggregate annual principal repayments on long-term debt are summarized as follows:

Due the year ending December 31,	Principal	Interest	Total
2025	$ 298,134	$ 283,428	$ 581,562
2026	297,531	273,540	571,071
2027	296,704	263,609	560,313
2028	309,274	253,353	562,627
2029	317,346	242,701	560,047
2030-2034	1,739,315	1,057,654	2,796,969
2035-2039	1,852,157	832,963	2,685,120
2040-2044	2,016,547	603,591	2,620,138
2045-2049	2,264,479	332,656	2,597,135
2050-2054	947,430	100,856	1,048,286
2055-2059	518,500	32,039	550,539
2060-2061	73,000	1,277	74,277
	$ 10,930,417	$ 4,277,667	$ 15,208,084

Note 7 – Retirement Plan

Laurel County Water District No. 2 is a participating employer of the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Public Pensions Authority (KPPA) administers CERS, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630. The assets of the system are segregated by plan (KERS, CERS, and SPRS), where each system's assets are used only for the payment of benefits to the members of that plan and a pro rata share of administrative costs. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Public Pensions Authority website (kyret.ky.gov).

Plan Description

CERS is a cost sharing, multiple-employer, defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Benefits Provided

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Note 7 – Retirement Plan (Continued)

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the District. All employees meeting the requirements for membership are required to contribute a percentage of their gross wages. For the years ended December 31, 2024 and 2023, plan members in non-hazardous positions were required to contribute 5% of the employee's total compensation subject to contribution.

Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565, normal contribution and past service contribution rates shall be determined by the KPPA Board of Trustees on the basis of the annual actuarial valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of July 1 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 in accordance with the actuarial basis adopted by the Board. The District's required contribution rates for the year ended December 31, 2024 were 23.34% (January through June 2024) and 19.71% (July through December 2024). The District's required contribution rates for the year ended December 31, 2023 were 26.79% (January through June 2023) and 23.34% (July through December 2023). Required contribution rates were actuarially determined and adopted by the KPPA Board of Trustees. Administrative costs of the KPPA are financed through employer contributions and investment earnings.

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. A Cash Balance Plan resembles a defined contribution plan because it determines the value of benefits for each participant based on individual accounts. However, the assets of the plan remain in a single investment pool like a traditional defined benefit plan. A Cash Balance Plan resembles a defined benefit plan since it uses a specific formula to determine benefits. Members and employers contribute specified percentages of the member's wages each month to the member's account. Non-hazardous plan members are required to contribute 5% of wages to their individual account. All members are required to contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. Each month, when employer contributions are received, an Employer Pay Credit is deposited to the member's account.

For non-hazardous members, their account is credited with a 4% Employer Pay Credit. The Employer Pay Credit represents a portion of the employer contribution. The account earns a guaranteed amount of interest, 4% on both the member contributions and the Employer Pay Credit balance, at the end of each fiscal year. If the member contributed to the plan during the fiscal year, there may be additional interest credit added to the member's account depending on KPPA's investment returns. This "upside" interest sharing is based on the 5-year average geometric investment return. If it exceeds 4%, the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30 of the previous year.

The District's payroll for the years ended December 31, 2024, 2023, and 2022 was $1,125,172, $1,009,413, and $902,459, respectively, of which $1,059,395, $963,392, $862,894, respectively, was covered by CERS. The District's contribution requirements for CERS for the years ended December 31, 2024, 2023, and 2022 were $228,133 ($228,133 allocated to the CERS pension fund and $0 allocated to the CERS insurance fund), $241,494 ($225,145 allocated to the CERS pension fund and $16,349 allocated to the CERS insurance fund), and $231,856 ($199,254 allocated to the CERS pension fund and $32,602 allocated to the CERS insurance fund), respectively. The District contributed 100% of their required contributions for the years ended December 31, 2024, 2023, and 2022.

Note 7 – Retirement Plan (Continued)

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

At December 31, 2024 and 2023, the District reported a liability of $1,949,379 and $2,005,159, respectively, for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024 and 2023, respectively, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of those dates. The District's proportion of the net pension liability 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 plan members, as actuarially determined. At the June 30, 2024 and 2023 measurement dates, the District's proportion was 0.032596% and 0.03125%, respectively.

For financial reporting, the actuarial valuation as of June 30, 2024, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2024 were based on an actuarial valuation date of June 30, 2023. The total pension liability 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.

There have been no actuarial assumption or method changes since June 30, 2023. 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, 2023 is determined using these updated benefit provisions. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous and 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 and 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.

Note 7 – Retirement Plan (Continued)

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

The District recognized pension expense of $187,848 and $153,193 for the years ended December 31, 2024 and 2023, respectively. At December 31, 2024, 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
Difference between expected and actual experience	$ 94,354	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	125,334
Changes of assumptions	-	88,074
Changes in proportion and differences between employer contributions and proportionate share of contributions	75,685	-
Employer contributions subsequent to the measurement date	103,869	-
Total	$ 273,908	$ 213,408

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net pension liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

The $103,869 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2025	$ (22,607)
2026	55,350
2027	(48,180)
2028	(27,932)
Thereafter	-
Total	$ (43,369)

Note 7 – Retirement Plan (Continued)

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

At December 31, 2023, 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
Difference between expected and actual experience	$ 103,803	$ 5,449
Net difference between projected and actual investment earnings on pension plan investments	-	27,351
Changes of assumptions	-	183,774
Changes in proportion and differences between employer contributions and proportionate share of contributions	75,168	980
Employer contributions subsequent to the measurement date	112,293	-
Total	$ 291,264	$ 217,554

Actuarial Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2024:

Amortization Method	Level percent of pay
Remaining Amortization Period	30 years, closed
Payroll Growth Rate	2.00%
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% to 10.30%, varies by service, for CERS non-hazardous
Investment Rate of Return	6.25%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 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 for 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.

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions (Continued)

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 rates of return for each major asset class are summarized in the following table:

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%	-0.60%
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%**

Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumes that the funds receive the required employer contributions each future year, as determined by 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.

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

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

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
District's net pension liability	$ 2,513,068	$ 1,949,379	$ 1,481,666

Note 7 – Retirement Plan (Continued)

Payable to the Pension Plan

At December 31, 2024 and 2023, the District reported payables of $20,806 and $23,149 for the outstanding amounts of contributions to the pension plan required for the years ended December 31, 2024 and 2023, respectively. The payables include the pension and insurance contribution allocations as well as contributions withheld from employees.

Note 8 –OPEB Plan

As a participating employer of the County Employees' Retirement System (CERS), the District also participates in the County Employees Retirement System Insurance Fund (Insurance Fund). Under the provisions of Kentucky Revised Statute Sections 61.645 and 61.701, the Board of Trustees of Kentucky Public Pensions Authority (KPPA) administers the Kentucky Retirement Systems Insurance Fund (KERS), County Employees Retirement System (CERS) and State Police Retirement System (SPRS). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems (KERS, CERS, and SPRS). The assets of the Insurance Fund are also segregated by plan. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description

CERS 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 non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Plan Membership

The net OPEB liability was calculated based on the Insurance plan membership as of June 30, 2023:

Membership Status	Non-Hazardous
Inactive plan members currently receiving benefits	38,679
Inactive plan members entitled to but not yet receving benefits	27,097
Active plan members	78,418
Total Membership	144,194

Note 8 –OPEB Plan (Continued)

Benefits Provided

The Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KPPA submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays a proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. The amount of contribution paid by the Insurance Fund is based on years of service. Additional details can be found in the publicly available KPPA Comprehensive Annual Financial Report which may be downloaded from the KPPA website.

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the District. See Note 7 for a description of the District's covered payroll and contribution requirements as well as the breakdown of contributions between the pension and insurance funds.

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

At December 31, 2024 and 2023 the District reported a liability (asset) of $(56,369) and $(43,144), respectively for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2024 and 2023, respectively, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of those dates. The District's proportion of the net OPEB liability 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 participating plan members, as actuarially determined. At the June 30, 2024 and 2023 measurement dates, the District's proportion was and 0.032587 and 0.031249 percent, respectively.

For financial reporting the actuarial valuation as of June 30, 2024 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2024, were based on an actuarial valuation date of June 30, 2023. The total OPEB liability was rolled-forward from the valuation date (June 30, 2023) to the plan's fiscal year ending June 30, 2024, using generally accepted actuarial principles. The KPPA Board adopted new actuarial assumptions since June 30, 2022. These assumptions can be readily obtained from KPPA's 2023 Annual Report.

Note 8 –OPEB Plan (Continued)

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

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2024:

Valuation Date	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30 years, closed
Payroll Growth Rate	2.00%
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 CERS non-hazardous
Investment Rate of Return	6.25%
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.
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.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous and hazardous

The long-term expected return was determined by using the building-block method in which best-estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same as those adopted for the CERS Pension Plan and are summarized in the table in Note 7.

The District recognized OPEB expense (benefit) of $(121,060) and $(67,695) for the years ended December 31, 2024 and 2023, respectively. At December 31, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 31,273	$ 443,513
Changes of assumptions	51,077	39,774
Net difference between projected and actual earnings on OPEB plan investments	-	51,440
Changes in proportion and differences between employer contributions and proportionate share of contributions	34,432	2,959
Employer contributions subsequent to the measurement date	-	-
Total	$ 116,782	$ 537,686

Note 8 –OPEB Plan (Continued)

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

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net OPEB liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

The $0 reported as deferred outflows of resources related to OPEB 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 ending December 31, 2025. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:		
2025	$	(173,386)
2026		(129,601)
2027		(115,396)
2028		(2,521)
Thereafter		-
Total	$	(420,904)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 30,078	$ 612,608
Changes of assumptions	84,905	59,170
Net difference between projected and actual earnings on OPEB plan investments	-	10,013
Changes in proportion and differences between employer contributions and proportionate share of contributions	31,564	8,826
Employer contributions subsequent to the measurement date	-	-
Total	$ 146,547	$ 690,617

Investment Policy

Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the Board of the Kentucky Pension Plan Authority. The Board has established an Investment Committee which is specifically charged with the oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the "Prudent Person Rule" (set forth in Kentucky Revised Statute 61.650) and manage those funds consistent with the long-term nature of the systems. The Investment Committee has adopted an Investment Policy Statement (IPS) that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of Kentucky Retirement Systems.

Note 8 –OPEB Plan (Continued)

Investment Policy (Continued)

The IPS contains the specific guidelines for the investment of Pension and Insurance assets. The target allocation and best estimates of arithmetic real rates of return for each major asset class adopted by the KPPA Board for the Insurance Plan are the same as those adopted for the CERS Pension Plan (See Note 7).

Net OPEB Liability

The components of the net OPEB liability of the participating employers in the CERS Non-Hazardous System and the District's proportionate share at June 30, 2024 were as follows:

	Total CERS Non-Hazardous System	District's Proportionate Share
Total OPEB liability	$ 3,534,297,000	$ 1,151,827
Plan fiduciary net position	(3,707,277,000)	(1,208,196)
Employers' Net OPEB Liability (Asset)	$ (172,980,000)	$ (56,369)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	104.89%	104.89%

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2024:

Valuation Date	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30 years, closed
Payroll Growth Rate	2.00%
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 CERS non-hazardous
Investment Rate of Return	6.25%
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.
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.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous and hazardous

Note 8 –OPEB Plan (Continued)

Actuarial Methods and Assumptions (Continued)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 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 for 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.

Discount Rate

The discount rate used to measure the total OPEB liability increased from 5.93% to 5.99%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.50% and a municipal bond rate of 3.97%, as reported in Fidelity Index's "20–Year Municipal GO AA Index" as of June 30, 2023.

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.99 percent, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.99 percent) or 1-percentage-point higher (6.99 percent) than the current rate:

	1% Decrease (4.99%)	Current Discount Rate (5.99%)	1% Increase (6.99%)
District's proportionate share of net OPEB liability	$ 76,217	$ (56,369)	$ (167,848)

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

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	$ (135,617)	$ (56,369)	$ 35,949

Note 9 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Note 10 - Subsequent Events

Management of the District has evaluated subsequent events through June 27, 2025, the date on which the financial statements were available to be issued.

Abner & Cox, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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 Commissioners
Laurel County Water District No. 2
London, 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 Audit Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Laurel County Water District No. 2 as of and for the year ended December 31, 2024 and the related notes to the financial statements, which collectively comprise the Laurel County Water District No. 2's basic financial statements, and have issued our report thereon dated June 27, 2025.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Laurel County Water District No. 2's internal control over financial reporting (internal control) to determine the 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 Laurel County Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Laurel County Water District No. 2'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 determination of financial statement amounts. 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.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

June 27, 2025

A. Findings – Financial Statement Audit

There were no matters reported.

Laurel County Water District No. 2
Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees Retirement System (CERS) Pension Plan
Last Ten Fiscal Years*

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.032596%	0.03125%	0.02996%	0.02918%	0.02988%	0.03054%	0.03031%	0.02516%	0.02289%	0.02398%	0.02334%
District's proportionate share of the net pension liability (asset)	$ 1,949,379	$ 2,005,159	$ 2,165,740	$ 1,860,390	$ 2,291,848	$ 2,148,173	$ 1,845,789	$ 1,472,516	$ 1,127,240	$ 1,031,130	$ 757,169
District's covered-employee payroll	$ 1,013,519	$ 963,392	$ 823,738	$ 768,309	$ 805,020	$ 812,959	$ 787,649	$ 741,387	$ 590,264	$ 578,096	$ 598,382
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	192.34%	208.14%	262.92%	242.14%	284.69%	264.24%	234.34%	198.62%	190.97%	178.37%	126.54%
Plan fiduciary net position as a percentage of the total pension liability	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the District will present information for those years for which information is available.

* The amounts presented for each year were determined (measured) as of the fiscal year-end that occurred within the calendar year.

Laurel County Water District No. 2
Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employees Retirement System (CERS) OPEB Plan
Last Ten Fiscal Years*

	2024	2023	2022	2021	2020	2019	2018	2017
District's proportion of the net OPEB liability (asset)	0.032587%	0.03125%	0.02997%	0.02917%	0.02987%	0.03054%	0.03031%	0.02516%
District's proportionate share of the total OPEB liability (asset)	$ 1,151,721	$ 1,018,814	$ 1,514,331	$ 1,507,085	$ 1,493,896	$ 1,298,228	$ 1,269,660	$ 1,062,349
District's proportionate share of the plan fiduciary net position	(1,208,090)	(1,061,958)	(922,948)	(948,583)	(772,578)	(784,626)	(731,601)	(556,607)
District's proportionate share of the net OPEB liability (asset)	$ (56,369)	$ (43,144)	$ 591,383	$ 558,502	$ 721,318	$ 513,602	$ 538,059	$ 505,742
District's covered-employee payroll	$ 1,013,519	$ 963,392	$ 823,738	$ 768,309	$ 805,020	$ 812,959	$ 787,649	$ 741,387
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	-5.56%	-4.48%	71.79%	72.69%	89.60%	63.18%	68.31%	68.22%
Plan fiduciary net position as a percentage of the total OPEB liability	104.89%	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%	52.39%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the District will present information for those years for which information is available.

* The amounts presented for each year were determined (measured) as of the fiscal year-end that occurred within the calendar year.

Laurel County Water District No. 2
Schedule of the District's Pension Contributions
County Employees Retirement System (CERS) Pension Plan
Last Ten Fiscal Years*

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 238,841	$ 212,266	$ 188,717	$ 143,847	$ 155,369	$ 131,862	$ 120,936	$ 105,527	$ 77,948	$ 72,739	$ 79,184
Contributions in relation to the contractually required contribution	(238,841)	(212,266)	(188,717)	(143,847)	(155,369)	(131,862)	(120,936)	(105,527)	(77,948)	(72,739)	(79,184)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 1,013,519	$ 963,392	$ 823,738	$ 768,309	$ 805,020	$ 812,959	$ 787,649	$ 741,387	$ 590,264	$ 578,096	$598,382
Contributions as a percentage of covered-employee payroll	23.57%	22.03%	22.91%	18.72%	19.30%	16.22%	15.35%	14.23%	13.21%	12.58%	13.23%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size, or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the District will present information for those years for which information is available.

* The amounts presented for each calendar year were determined as of the fiscal year-end that occurred within the calendar year.

Laurel County Water District No. 2
Schedule of the District's OPEB Contributions
County Employees Retirement System (CERS) OPEB Plan
Last Ten Fiscal Years*

	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	$ -	$ 30,751	$ 34,559	$ 35,477	$ 38,319	$ 42,762	$ 39,235	$ 34,949
Contributions in relation to the contractually required contribution	-	(30,751)	(34,559)	(35,477)	(38,319)	(42,762)	(39,235)	(34,949)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 1,013,519	$ 963,392	$ 823,738	$ 768,309	$ 805,020	$ 812,959	$ 787,649	$ 741,387
Contributions as a percentage of covered-employee payroll	0.00%	3.19%	4.20%	4.62%	4.76%	5.26%	4.98%	4.71%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size, or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the District will present information for those years for which information is available.

* The amounts presented for each calendar year were determined as of the fiscal year-end that occurred within the calendar year.