

PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2022 and 2021

PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2022 and 2021

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PENDLETON COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2022 and 2021

Dave Boden, Chairman

Joe Strange, Vice-Chairman

Brent Moore, Treasurer

Larry "Rick" Adams, Secretary

Doug Gosney, Commissioner

Of Counsel

Joesph Cottingham
Attorney

Administration

Austin Monroe, General Manager

Independent Auditor's Report

**To the Board of Commissioners
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 Pendleton County Water District (District), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the 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 Pendleton County Water District as of December 31, 2022 and 2021, 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 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 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 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 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2023, on our consideration of the 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 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 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
June 9, 2023

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, 2022. 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 \$8,109,684 (net position). This was an increase of \$303,406. 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 \$450,235.

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, 2022, 2021 and 2020:

Table 1
Net Position

	2022	2021	2020
Current assets	\$ 437,956	\$ 422,608	\$ 381,936
Restricted assets	1,636,022	1,625,623	1,494,417
Capital assets, net	8,553,637	8,446,422	8,501,431
Deferred outflows of resources - pension & OPEB contribution	144,977	278,017	390,775
Total Assets and Deferred Outflows of Resources	<u>10,772,592</u>	<u>10,772,670</u>	<u>10,768,559</u>
Current liabilities	114,503	170,689	104,216
Liabilities payable from restricted assets	127,700	122,606	130,493
Long-term liabilities	2,132,179	2,361,013	2,690,183
Deferred inflows of resources - pension & OPEB	288,526	312,084	86,961
Total Liabilities and Deferred Inflows of Resources	<u>2,662,908</u>	<u>2,966,392</u>	<u>3,011,853</u>
Net Position:			
Net investment in capital assets	7,394,083	7,225,598	7,209,337
Restricted	265,366	261,658	271,112
Unrestricted	450,235	319,022	276,257
Total Net Position	<u>\$ 8,109,684</u>	<u>\$ 7,806,278</u>	<u>\$ 7,756,706</u>

The District's net position for 2022 increased 3.89% or \$303,406. 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 (91.2%) 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 (3.3%) 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

	2022	2021	2020
Operating revenues:			
Water sales	\$ 1,658,807	\$ 1,584,262	\$ 1,505,469
Forfeited discounts	23,726	23,526	5,248
Miscellaneous services revenues	21,396	19,045	10,562
Total operating revenues	<u>1,703,929</u>	<u>1,626,833</u>	<u>1,521,279</u>
Operating expenses:			
Water purchased	520,040	506,803	497,591
Operation and maintenance expense	737,078	768,344	786,489
Depreciation	238,948	238,247	245,402
Total operating expenses	<u>1,496,066</u>	<u>1,513,394</u>	<u>1,529,482</u>
Net operating profit	<u>207,863</u>	<u>113,439</u>	<u>(8,203)</u>
Non-operating income (expenses)			
Investment income	18,935	7,582	11,424
Gain (loss) disposal of assets	(10,663)	(10,864)	(18,030)
Net effect on change in pension expense	54,768	(68,295)	(163,052)
Interest on long-term debt	(39,217)	(41,295)	(43,399)
Amortization of bond premium	584	584	1,006
Net non-operating expenses	<u>24,407</u>	<u>(112,288)</u>	<u>(212,051)</u>
Income (loss) before capital contributions	232,270	1,151	(220,254)
Capital grants and contributions	71,136	48,421	49,451
Change in net position	<u>303,406</u>	<u>49,572</u>	<u>(170,803)</u>
Net position, January 1	<u>7,806,278</u>	<u>7,756,706</u>	<u>7,927,509</u>
Net position, December 31	<u>\$ 8,109,684</u>	<u>\$ 7,806,278</u>	<u>\$ 7,756,706</u>

SUMMARY OF CHANGES IN NET POSITION

Revenues

Operating revenues increased \$77,096 or 4.7% from 2021 to 2022. 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 \$31,266 or 4.1% from 2021 to 2022. This decrease was primarily due to a reduction in employee salaries and benefits. This was due to the fact that the general manager who had been with the district for many years retired and the District hired a new general manager at a slightly lower salary due to less years of experience in the position.

Net Effect on Change in Pension and OPEB Expense

In recording the District's proportionate share of the unfunded pension and OPEB liability and the related deferred inflows and outflows, the District calculates the annual expense related to this unfunded liability. During 2022 the net change created a pension benefit of \$54,768 compared to a pension expense of \$68,295 reported in 2021.

Capital Contributions

Capital contributions increased \$22,715 or 46.9% from 2021 to 2022, even though tap on fees decreased to 42 new customers along existing lines during 2022 in comparison to 47 new customers during 2021. The District received new funding from several grants.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2022, the District had \$8,553,637 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net increase (additions less retirements and depreciation) of \$107,215. During 2022, the cost of new equipment and the construction cost of a small line extension project exceeded depreciation expense for the year.

Table 3 Summarizes the District's capital assets at December 31, 2022, 2021 and 2020.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Land	\$ 63,176	\$ 63,176	\$ 63,176
Transmission lines and equipment	13,549,204	13,358,658	13,291,305
Furniture and fixtures	35,193	58,321	57,602
Machinery and equipment	509,450	462,556	388,196
Buildings and improvements	335,940	335,940	335,092
Construction in progress	25,616	32,366	25,016
Subtotal	<u>14,518,579</u>	<u>14,311,017</u>	<u>14,160,387</u>
Accumulated depreciation	<u>(5,964,942)</u>	<u>(5,864,595)</u>	<u>(5,658,956)</u>
Capital Assets, net	<u><u>\$ 8,553,637</u></u>	<u><u>\$ 8,446,422</u></u>	<u><u>\$ 8,501,431</u></u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at December 31, 2022, 2021, and 2020.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Bond payable obligations	<u>\$ 1,157,000</u>	<u>\$ 1,216,000</u>	<u>\$ 1,285,000</u>
Total	<u><u>\$ 1,157,000</u></u>	<u><u>\$ 1,216,000</u></u>	<u><u>\$ 1,285,000</u></u>

At year-end, the District had \$1,157,000 in outstanding bonds compared to \$1,216,000 last year. This is a decrease of \$59,000 or 4.9%. Scheduled principal payments for 2023 are \$64,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2023 projects an increase in net position, but one that will be much lower than what was experienced in the 2022 calendar year. This is primarily due to an increase in operating expenses in the coming year. The District is experiencing higher costs for various supplies due to inflation. Salaries and benefit costs are projected to increase in order to remain competitive in the current employment market. The District is also projecting a slight decrease in revenue due to lower usage.

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 331 Highway 330 West, Falmouth, Kentucky 41040.

Austin Monroe

Austin Monroe, General Manager
Pendleton County Water District

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2022 and 2021
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	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 165,448	\$ 229,260
Accounts receivable	181,229	123,615
Inventories	64,154	34,786
Prepays	23,564	32,045
Accrued interest income	3,561	2,902
Total Current Assets	<u>437,956</u>	<u>422,608</u>
Restricted Assets		
Improvement, repair, and replacement	1,290,684	1,290,873
Depreciation reserve	202,047	201,520
Bond sinking fund	94,716	84,817
Customer deposits	48,575	48,413
Total Restricted Assets	<u>1,636,022</u>	<u>1,625,623</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	14,518,579	14,311,017
Less: accumulated depreciation	<u>(5,964,942)</u>	<u>(5,864,595)</u>
Total Capital Assets, net of depreciation	<u>8,553,637</u>	<u>8,446,422</u>
TOTAL ASSETS	10,627,615	10,494,653
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows related to rate case expense	3,794	5,480
Deferred outflows related to pensions and OPEB	<u>141,183</u>	<u>272,537</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 10,772,592</u>	<u>\$ 10,772,670</u>

Continued on page 11

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF NET POSITION - Continued from page 10 December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 49,266	\$ 112,710
Accrued and withheld liabilities	61,837	48,492
Deferred income	3,400	9,487
Total Current Liabilities	<u>114,503</u>	<u>170,689</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds and lease obligations - current portion	64,000	59,000
Customer deposits	46,934	45,965
Accrued interest payable	16,766	17,641
Total Current Liabilities Payable From Restricted Assets	<u>127,700</u>	<u>122,606</u>
Long-Term Liabilities		
Bonds	1,093,000	1,157,000
Unamortized premium on debt	2,554	4,824
Net unfunded pension and OPEB liability	1,036,625	1,199,189
Total Long-Term Liabilities	<u>2,132,179</u>	<u>2,361,013</u>
TOTAL LIABILITIES	2,374,382	2,654,308
DEFERRED INFLOW OF RESOURCES		
Deferred inflows related to pensions and OPEB	<u>288,526</u>	<u>312,084</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>2,662,908</u>	<u>2,966,392</u>
NET POSITION		
Net investment in capital assets	7,394,083	7,225,598
Restricted	265,366	261,658
Unrestricted	450,235	319,022
TOTAL NET POSITION	<u>\$ 8,109,684</u>	<u>\$ 7,806,278</u>

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

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ending December 31, 2022 and 2021
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	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water revenue	\$ 1,682,533	\$ 1,607,788
Other service revenues	21,396	19,045
TOTAL OPERATING REVENUES	<u>1,703,929</u>	<u>1,626,833</u>
OPERATING EXPENSES		
Water purchased	520,040	506,803
Operations, maintenance, and administrative expenses	737,078	768,344
Depreciation	238,948	238,247
TOTAL OPERATING EXPENSES	<u>1,496,066</u>	<u>1,513,394</u>
OPERATING PROFIT	<u>207,863</u>	<u>113,439</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	18,935	7,582
Gain (loss) on disposal of assets	(10,663)	(10,864)
Net effect of change in pension expense	54,768	(68,295)
Interest on long-term obligations	(39,217)	(41,295)
Amortization of bond premium	584	584
NET NON-OPERATING INCOME (EXPENSES)	<u>24,407</u>	<u>(112,288)</u>
NET GAIN	232,270	1,151
CAPITAL GRANTS AND CONTRIBUTIONS	<u>71,136</u>	<u>48,421</u>
CHANGE IN NET POSITION	303,406	49,572
NET POSITION, JANUARY 1	<u>7,806,278</u>	<u>7,756,706</u>
NET POSITION, DECEMBER 31	<u><u>\$ 8,109,684</u></u>	<u><u>\$ 7,806,278</u></u>

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

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,646,315	\$ 1,621,796
Paid to suppliers for goods and services	(835,892)	(675,663)
Paid to or on behalf of employees for services	(492,212)	(554,708)
	<u>318,211</u>	<u>391,425</u>
NET CHANGE IN CASH FROM OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(356,826)	(194,102)
Interest received on investments	18,276	8,111
	<u>(338,550)</u>	<u>(185,991)</u>
NET CHANGE IN CASH FROM INVESTING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long term debt	(59,000)	(69,000)
Interest paid on long term debt	(40,092)	(42,183)
Contributed capital received	65,049	57,058
Increase in restricted cash	(10,399)	(131,206)
(Decrease) increase in customer deposits	969	3,001
	<u>(43,473)</u>	<u>(182,330)</u>
NET CHANGE IN CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
CHANGE IN CASH AND CASH EQUIVALENTS	(63,812)	23,104
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	229,260	206,156
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 165,448</u>	<u>\$ 229,260</u>
RECONCILIATION OF OPERATING INCOME TO NET CHANGE IN CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 207,863	\$ 113,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	238,948	238,247
Change in operating assets and liabilities		
Decrease (Increase) in receivables	(57,614)	(5,037)
Decrease (Increase) in inventories	(29,368)	(6,014)
Decrease (Increase) in prepaid assets	8,481	(7,046)
Increase (Decrease) in accounts payable	(63,444)	67,832
Increase (Decrease) in other accrued liabilities	13,345	(9,996)
	<u>\$ 318,211</u>	<u>\$ 391,425</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
SUPPLEMENTAL INFORMATION		
Interest expensed	<u>\$ (39,217)</u>	<u>\$ (41,295)</u>

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

PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The 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 1958. The District’s current service area includes parts of Pendleton, Campbell, and Grant 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.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

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 2022 and 2021 these contributions consisted of the following:

<u>Source</u>	<u>2022</u>	<u>2021</u>
Tap in fees and construction costs paid by new customers	\$ 41,044	\$ 48,421
Capital grants	30,092	-
Total	<u>\$ 71,136</u>	<u>\$ 48,421</u>

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.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

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 \$165,448 and \$229,260 at December 31, 2022 and 2021, respectively. The balances for “Restricted Assets” were \$1,636,022 and \$1,625,623 at December 31, 2022 and 2021, 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, 2022, 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, 2022 and 2021. 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, 2021:

	Fair Value	<i>Fair Value Measurements Using</i>		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Operation and maintenance	\$ 229,260	\$ 229,260	\$ -	\$ -
Customer deposits	48,413	48,413	-	-
Debt payments	84,817	4,209	80,608	-
Current and replacement reserve	1,492,393	1,492,393	-	-
Total	\$ 1,854,883	\$ 1,774,275	\$ 80,608	\$ -

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

	Fair Value	<i>Fair Value Measurements Using</i>		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Operation and maintenance	\$ 165,448	\$ 165,448	\$ -	\$ -
Customer deposits	48,575	48,575	-	-
Debt payments	94,716	9,543	85,173	-
Current and replacement reserve	1,492,731	1,492,731	-	-
Total	\$ 1,801,470	\$ 1,716,297	\$ 85,173	\$ -

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

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:

	<u>2022</u>	<u>2021</u>
Depreciation Reserve Fund	\$ 202,047	\$ 201,520
Bond Sinking Fund	<u>63,319</u>	<u>60,138</u>
Total Restricted Net Position	<u>\$ 265,366</u>	<u>\$ 261,658</u>

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:

PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

Asset Type	Balance at December 31, 2021	Additions	Retirements / Reclassification	Balance at December 31, 2022
Land	\$ 63,176	\$ -	\$ -	\$ 63,176
Buildings and improvements	335,940	-	-	335,940
Dist. reservoirs and standpipes	997,510	261,058	(437,036)	821,532
Furniture and fixtures	58,321	-	(23,128)	35,193
Hydrants	203,747	-	-	203,747
Meter system and installation	689,583	4,764	-	694,347
Other plant and misc. equipment	161,972	-	-	161,972
Pumping equipment	448,724	-	(63,791)	384,933
Services	883,918	32,958	-	916,876
Tools and equipment	35,071	-	(4,408)	30,663
Transmission mains	10,135,176	11,654	380,939	10,527,769
Transportation equipment	203,453	35,070	(1,840)	236,683
Computer equipment	62,060	18,072	-	80,132
Construction in progress	32,366	4,904	(11,654)	25,616
Subtotal	14,311,017	368,480	(160,918)	14,518,579
Accumulated depreciation	(5,864,595)	(238,948)	138,601	(5,964,942)
Capital Assets, net	\$ 8,446,422	\$ 129,532	\$ (22,317)	\$ 8,553,637

NOTE 5 – LONG TERM DEBT

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

Debt Instrument	Balance at December 31, 2021	Additions	Retirements	Balance at December 31, 2022
Revenue bonds of 2010	\$ 186,000	\$ -	\$ (4,000)	\$ 182,000
Kentucky Rural Water Finance Corp.	45,000	-	(15,000)	30,000
Kentucky Rural Water Finance Corp.	985,000	-	(40,000)	945,000
Subtotal	1,216,000	\$ -	\$ (59,000)	1,157,000
Less: current portion of long-term debt	(59,000)			(64,000)
Total Long-Term Indebtedness	\$ 1,157,000			\$ 1,093,000

Water Works System Revenue Bonds, U.S. Department of Agriculture 2010

On July 30, 2010, the District sold \$220,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. Principal payments are due annually on January 1 of each year beginning in 2012 and ending in 2049. Interest is payable January 1 and July 1 of each year. The remaining debt service is as follows:

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	3.25%	\$ 4,000	\$ 5,850	\$ 9,850
2024	3.25%	4,500	5,712	10,212
2025	3.25%	4,500	5,566	10,066
2026	3.25%	4,500	5,419	9,919
2027	3.25%	5,000	5,265	10,265
2028-2032	3.25%	26,500	23,814	50,314
2033-2037	3.25%	32,000	19,094	51,094
2038-2042	3.25%	38,000	13,406	51,406
2043-2047	3.25%	45,000	6,679	51,679
2048-2049	3.25%	18,000	553	18,553
Totals		<u>\$ 182,000</u>	<u>\$ 91,358</u>	<u>\$ 273,358</u>

Kentucky Rural Water Finance Corporation

On March 27, 2013, The District entered into a loan agreement with the Kentucky Rural Water Finance Corporation (KRWFC) for a promissory note in the amount of \$215,000. Concurrent with this loan agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2013C which refunded the District's Series 2001A 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 January 1 beginning in 2014 and ending January 1, 2024. Interest is payable January 1 and July 1 of each year. These bonds were issued at a premium of \$24,225 which is being amortized over the life of the bonds. As of December 31, 2020, \$2,270 of the premium was amortized. The District achieved substantial interest cost savings under this program.

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	4.800%	\$ 15,000	\$ 1,080	\$ 16,080
2024	4.800%	15,000	360	15,360
Totals		<u>\$ 30,000</u>	<u>\$ 1,440</u>	<u>\$ 31,440</u>

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 \$1,210,000. Concurrent with this agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2015B which refunded the District's outstanding Series 1997 Bonds and Series 2004 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. These bonds were issued at a premium of \$432 which is being amortized over the life of the bonds. The District achieves substantial interest cost savings under this program. The remaining debt service is as follows:

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	3.250%	\$ 45,000	\$ 30,969	\$ 75,969
2024	3.250%	45,000	29,506	74,506
2025	3.250%	45,000	28,044	73,044
2026	3.250%	45,000	26,581	71,581
2027	3.250%	50,000	25,037	75,037
2028-2032	3.250%	280,000	99,188	379,188
2033-2037	3.25%-3.50%	345,000	46,963	391,963
2038-2041	3.500%-3.625%	90,000	6,837	96,837
Totals		<u>\$ 945,000</u>	<u>\$ 293,125</u>	<u>\$ 1,238,125</u>

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 Statute (“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, 2021:

	Non-Hazardous	
	Pension	OPEB
Active Plan Members	77,367	76,946
Inactive Plan Members	100,738	28,719
Retired Members	67,206	37,584
	<u>245,311</u>	<u>143,249</u>
Number of participating employers		<u>1,141</u>

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:

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

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:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5%
Tier 3	5%

Contributions

The District contributed 26.95% of covered-employee's compensation (from January – June 2022) of which 21.17% was for the pension fund and 5.78% was for the health insurance fund and contributed 26.79% of covered-employee's compensation (from July – December 2022), of which 23.40% was for the pension fund and 3.39% 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 \$81,643, of which \$67,648 was for the pension fund and \$13,995 was for the health insurance fund.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

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

At December 31, 2022, the District reported a liability of \$814,348 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District 's 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 entities, actuarially determined. At the June 30, 2022 measurement year, the District 's non-hazardous employer allocation proportion was 0.01127% of the total CERS non-hazardous duty employees. For the year ended December 31, 2022, the District recognized pension benefit of \$63,838 in addition to its \$67,648 pension contribution.

At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Non-Hazardous</u>	
	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>
Differences between expected and actual experience	\$ 871	\$ (7,252)
Net difference between projected actual earnings on plan investments	20,877	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	2,031	(148,775)
Contributions subsequent to the measurement date	<u>34,916</u>	<u>-</u>
	<u>\$ 58,695</u>	<u>\$ (156,027)</u>

The District's contributions subsequent to the measurement date of \$34,916 will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

Measurement Year Ending June 30,	Net Deferral
2023	\$ (78,341)
2024	(70,198)
2025	(6,843)
2026	23,134
	<u>\$ (132,248)</u>

Actuarial Methods and Assumptions for Determining the Net Pension Liability

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

There have been no actuarial assumption or method changes since June 30, 2021. Additionally, there have been no plan provision changes that would materially impact the total pension liability since June 30, 2012.

House Bill 1 passed during the 2022 legislative session and included a provision that provided an approximate 8% across-the-board salary increase for KERS members effective July 1, 2022, for eligible State employees. While this salary increase may produce an actuarial loss with respect to the liability attributable to Tier 1 and Tier 2 active members (i.e., a higher total pension liability than expected based on current actuarial assumptions), there was not sufficient information available at the time the roll forward Total Pension Liability was calculated to make a reasonable adjustment to reflect these anticipated salary increases. 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 for CERS Non-Hazardous and CERS Hazardous plans are as follows:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 to June 30, 2018
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 3.55% to 19.05% varies by service for Hazardous

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

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 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.

Changes of Assumptions

There have been no changes in actuarial assumptions since June 30, 2021.

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous and CERS 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 29 years (closed) amortization period of the unfunded actuarial accrued liability.

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%	4.45%
Private equity	10.00%	10.15%
Core bonds	10.00%	0.28%
Specialty credit / high yield	10.00%	2.28%
Cash	0.00%	-0.91%
Real estate	7.00%	3.67%
Real return	13.00%	4.07%
Expected Real Return	100.00%	4.28%
Long-Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

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 calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.25%	6.25%	7.25%
Non-hazardous	\$ 1,017,934	\$ 814,348	\$ 646,049
Total	\$ 1,017,934	\$ 814,348	\$ 646,049

HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

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:

	<u>Required Contribution</u>
Tier 1	None
Tier 2	1%
Tier 3	1%

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KPPA Trustees. The District contributed 5.78% of covered-employee's compensation (from January – June 2022) and contributed 3.39% of covered-employee's compensation (from July – December 2022) 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. For the year ended December 31, 2022, the District recognized OPEB expense of \$9,070 in addition to its \$13,995 OPEB contribution.

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

At December 31, 2022, the District reported a liability of \$222,277 as its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. 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 governmental entities, actuarially determined. At the June 30, 2022 measurement year, the District's proportion of the total non-hazardous plan was 0.01126%.

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

	<u>Non-Hazardous</u>	
	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>
Differences between expected and actual experience	\$22,374	\$ (50,973)
Net difference between projected actual earnings on plan investments	9,021	-
Changes of assumptions	35,155	(28,967)
Changes in proportion and differences between contributions and proportionate share of contributions	10,879	(52,560)
Contributions subsequent to the measurement date	<u>5,058</u>	<u>-</u>
	<u>\$82,487</u>	<u>\$ (132,500)</u>

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

The District's contributions subsequent to the measurement date, \$5,058 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Measurement Year Ending June 30,	Net Deferral
2023	\$ (9,068)
2024	(9,827)
2025	(26,318)
2026	(9,858)
	<u>\$ (55,071)</u>

Actuarial Methods and Assumptions to Determine the Net OPEB Liability

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

The actuarial assumptions for CERS Non-Hazardous and CERS Hazardous plans are as follows:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 to June 30, 2018
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 3.55% to 19.05% varies by service for Hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 9.00% in 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

PENDLETON COUNTY WATER DISTRICT
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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 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 as of June 30, 2022, 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 decreased from 5.20% to 5.70%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2022 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 5.70% for CERS Nonhazardous, 5.61% for CERS Hazardous, 5.72% for KERS Nonhazardous, and 5.59% for KERS Hazardous systems were used to measure the total OPEB liability as of June 30, 2022. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. 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

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

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%	4.45%
Private equity	10.00%	10.15%
Core bonds	10.00%	0.28%
Specialty credit /high yield	10.00%	2.28%
Cash	0.00%	-0.91%
Real estate	7.00%	3.67%
Real return	13.00%	4.07%
Expected Real Return	<u>100.00%</u>	<u>4.28%</u>
Long-Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>6.58%</u>

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

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.70% for the non-hazardous plan, as well as what the proportionate share of the net OPEB liability 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:

Discount Rate, Non-Hazardous	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Net OPEB liability, Non-Haz	<u>\$ 297,149</u>	<u>\$ 222,277</u>	<u>\$ 160,383</u>
Total	<u>\$ 297,149</u>	<u>\$ 222,277</u>	<u>\$ 160,383</u>

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

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2022 and 2021

rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

Healthcare cost trend rate	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Net OPEB liability, non-hazardous	\$ 165,258	\$ 222,277	\$ 290,746
Total	\$ 165,258	\$ 222,277	\$ 290,746

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, and Grant Counties in Kentucky.

NOTE 8 – CONCENTRATIONS

The District has agreements to purchase water from the City of Falmouth, Kentucky and the Northern Kentucky Water District through the year 2047. In June 2001, the District signed an agreement to purchase water on an “as needed” basis from the City of Williamstown, Kentucky. This contract was in force until June 2021. The contract expired June 2021 and the District is in the process of seeking renewal for that contract. Currently the District only purchases water from the City of Williamstown during emergency situations.

NOTE 9 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 87 – *Leases* – FY 2022

Statement No. 92 – *Omnibus 2020* – FY 2022

Statement No. 93 – *Replacement of Interbank Offered Rates* – FY 2022

Statement No. 94 – *Public-Private and Public-Public Partnerships* – FY 2022

Statement No. 96 – *Subscription-Based Information Technology Arrangements* – FY 2022

Statement No. 97 – *Component Unit Criteria for IRS Section 457 Deferred Comp. Plans* – FY 2022

Statement No. 98 – *The Annual Comprehensive Financial Report* – FY 2022

The implementation of these standards had no significant effect on the District.

PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 10 – FUTURE ACCOUNTING STANDARDS

Statement No. 91 – *Conduit Debt Obligations* – FY 2023

Statement No. 99 – *Omnibus 2022* – FY 2023

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated events through June 9, 2023, the date on which the financial statements were available for issue. The District had one event subsequent to report from December 31, 2022 through June 9, 2023 to disclose.

In 2022 the District was awarded a Grant from the Commonwealth of Kentucky “Cleaner Water Program.” The District is eligible to receive up to \$133,959 for work on the KY 3149 and Catawba Road projects. Activity for these projects did not begin until January 2023, the first payment of \$20,930 was received in May of 2023.

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)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Proportion of net pension liability	0.011270%	0.014470%	0.014549%	0.013868%	0.012790%	0.01270%	0.011850%	0.012160%		
Proportionate share of the net pension liability (asset)	\$ 814,348	\$ 922,321	\$ 1,115,896	\$ 975,343	\$ 779,194	\$ 743,194	\$ 583,507	\$ 522,805		
Covered payroll in year of measurement	\$ 314,804	\$ 369,492	\$ 372,658	\$ 349,798	\$ 317,097	\$ 309,151	\$ 282,712	\$ 283,700		
Share of the net pension liability (asset) as a percentage of its covered payroll	258.68%	249.62%	299.44%	278.83%	245.73%	240.40%	206.40%	184.28%		
Plan fiduciary net position as a percentage of total pension liability	52.42%	57.33%	47.81%	50.45%	53.54%	55.50%	55.50%	59.97%		

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 67,648	\$ 67,261	\$ 74,246	\$ 65,005	\$ 50,357	\$ 43,127	\$ 33,670	\$ 36,304	\$ 44,559	
Actual contribution	\$ 67,648	\$ 67,261	\$ 74,246	\$ 65,005	\$ 50,357	\$ 43,127	\$ 33,670	\$ 36,304	\$ 44,559	
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	
Covered payroll	\$ 303,828	\$ 332,982	\$ 384,693	\$ 365,705	\$ 327,486	\$ 311,455	\$ 294,768	\$ 274,414	\$ 317,238	
Contributions as a percentage of covered payroll	22.27%	20.20%	19.30%	17.78%	15.38%	13.85%	11.42%	13.23%	14.05%	

Notes to Required Supplementary Information
for the Year Ended December 31, 2022

The net pension liability as of December 31, 2022, is based on the June 30, 2022, actuarial valuation. The changes to the elements of the pension expense, 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.

PENDLETON COUNTY WATER DISTRICT MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE-NON-HAZARDOUS Last Ten Fiscal Years
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**Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)**

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Proportion of net OPEB liability	0.011260%	0.014470%	0.01454%	0.138640%	0.01279%					
Proportionate share of the net OPEB liability (asset)	\$ 222,277	\$ 276,868	\$ 351,193	\$ 233,186	\$ 227,137					
Covered payroll in year of measurement	\$ 314,804	\$ 369,492	\$ 372,658	\$ 349,798	\$ 317,097					
Share of the net pension liability (asset) as a percentage of its covered payroll	70.61%	74.93%	94.24%	66.66%	71.63%					
Plan fiduciary net position as a percentage of total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%					

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 13,995	\$ 17,484	\$ 18,311	\$ 18,313	\$ 16,337					
Actual contribution	\$ 13,995	\$ 17,484	\$ 18,311	\$ 18,313	\$ 16,337					
Contribution deficiency (excess)	-	-	-	-	-					
Covered payroll	\$ 303,828	\$ 332,982	\$ 384,693	\$ 365,705	\$ 327,486					
Contributions as a percentage of covered payroll	4.61%	5.25%	4.76%	5.01%	4.99%					

**Notes to Required Supplementary Information
for the Year Ended December 31, 2022**

The net pension liability as of December 31, 2022, is based on the June 30, 2022, actuarial valuation. The changes to the elements of the OPEB expense, 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.

PENDLETON COUNTY WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 332,342	\$ 358,615
Employee pension and benefits	150,815	162,097
Advertising	379	-
Bad debt expense	4,681	(222)
Commissioners' fees	22,400	24,000
Contractual services - accounting	27,700	27,400
Contractual services - other	21,904	25,115
Insurance - general and vehicle	21,293	20,658
Insurance - other	136	126
Insurance - workers' compensation	5,270	4,827
Materials and supplies	47,386	53,506
Miscellaneous	6,265	4,097
Purchased power	20,802	17,242
Regulatory commission	2,124	3,175
Rental of equipment	2,411	2,284
Taxes	28,315	30,388
Transportation	28,673	21,295
Utilities	14,182	13,741
	<u> </u>	<u> </u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 737,078</u>	<u>\$ 768,344</u>

**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
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 Pendleton County Water District as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements which collectively comprise Pendleton County Water District's basic financial statements and have issued our report thereon dated June 9, 2023.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered 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 Pendleton County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 identify certain deficiencies in internal control, described below, that we consider significant deficiencies.

Lack of Segregation of Duties

Condition: We noted that due to the size of the District and financial considerations, some of the executing and recording of transactions are performed by the same person.

Criteria: Segregation of duties is a necessary part of any system of internal control. Segregating the processes of authorizing, executing and recording transactions is essential.

Effect: Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account. The District has determined that the cost of mitigation is not justified when compared to the risk of the related transactions.

Recommendation: Due to the size of the District and other financial considerations, internal controls should be implemented, to the highest appropriate level, to segregate the duties of the personnel. Controls should then be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.pcwd
Erlanger, Kentucky
June 9, 2023